Merrill Lynch

1991 Annual Report

BREAKING THE MOLD

FINANCIAL HIGHLIGHTS

(Dollars in Thousands, Except Per Share Amounts)	1991 (52 Weeks)	1990 (52 Weeks)	1989 (52 Weeks)	1988 (53 Weeks)	1987 (52 Weeks)
					Year Ended Last Friday in December
Operating Results					
Total Revenues	$12,362,845	$11,150,816	$11,275,951	$ 9,694,980	$ 9,072,435
Net Revenues	$ 7,256,501	$ 5,786,916	$ 5,904,923	$ 5,926,777	$ 6,002,457
Net Earnings (Loss)	$ 696,117	$ 191,856	$ (213,385)	$ 463,182	$ 335,108
Return on Average Assets	0.8%	0.3%	*(a)*	0.8%	0.6%
Return on Average Common Stockholders' Equity	20.8%	5.8%	*(a)*	14.8%	11.3%
Financial Position					
Total Assets	$86,259,343	$68,129,527	$63,942,263	$64,402,655	$55,192,646
Total Stockholders' Equity	$ 3,818,088	$ 3,225,430	$ 3,151,343	$ 3,484,178	$ 3,275,425
Tax Information					
Income Tax Expense *(b)*	$ 321,301	$ 90,472	$ 61,863	$ 175,513	$ 57,106
All Other (principally payroll and property taxes)	191,291	169,457	177,780	171,271	150,517
Total Taxes *(b)*	$ 512,592	$ 259,929	$ 239,643	$ 346,784	$ 207,623
Per Common Share					
Primary Earnings (Loss)	$ 6.02	$ 1.59	$ (2.31)	$ 4.29	$ 3.07
Fully Diluted Earnings (Loss)	$ 5.90	$ 1.59	$ (2.31)	$ 4.21	$ 3.03
Total Taxes *(b)*	$ 4.55	$ 2.46	$ 2.35	$ 3.34	$ 1.91
Dividends Paid	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ .95
Book Value	$ 35.76	$ 29.97	$ 28.52	$ 32.43	$ 29.19
Common Shares Outstanding *(c)*	102,721,818	99,834,635	102,691,377	98,686,499	102,373,076

(a) As a result of the net loss in 1989, this ratio is not meaningful.
(b) Excludes the 1987 charge for the cumulative effect of a change in accounting for income taxes of $36,838, or $.34 per common share. Includes the aggregate income taxes associated with the discontinued operations of Fine Homes International, L.P. (FHI). These aggregate income taxes with respect to FHI were $2,883 in 1989, $10,152 in 1988 and $23,191 in 1987.
(c) Does not include 6,818,410, 8,035,984 and 9,326,731 unallocated shares held in the Employee Stock Ownership Plan at year-end 1991, 1990 and 1989, respectively, which are not considered outstanding for accounting purposes.

DESCRIPTION OF BUSINESS

Merrill Lynch & Co., Inc. is a holding company that, through its subsidiaries and affiliates, provides investment, financing, insurance and related services. Its principal subsidiary, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), is one of the largest securities firms in the world. MLPF&S is a broker in securities, options contracts, commodity and financial futures contracts and selected insurance products, a dealer in options and in corporate and municipal securities and an investment banking firm. Merrill Lynch Asset Management manages mutual funds and provides investment advisory services. Merrill Lynch Government Securities Inc. is a primary dealer in obligations issued by the U.S. Government or guaranteed or issued by Federal agencies. Other subsidiaries provide financial services outside the United States similar to those of MLPF&S and are engaged in such other activities as international banking, lending, and providing other investment and financing services. Insurance underwriting and marketing operations consist of the underwriting of life insurance and annuity products through insurance company subsidiaries of Merrill Lynch Insurance Group, Inc. and the sale of life insurance and annuities through Merrill Lynch Life Agency Inc. and other life insurance agencies associated with MLPF&S.

TABLE OF CONTENTS

To Our Shareholders and Clients:

Today, Merrill Lynch stands alone as a dominant financial services firm for both individual and institutional investors and as one of the handful of top-tier capital markets firms worldwide.

1991 was a watershed year for Merrill Lynch. The key strategies and disciplines implemented by management in recent years came to fruition, giving our company record net earnings of $696 million, or $6.02 per common share, 50% above our previous earnings record set in 1988.

This compares with net income of $192 million, or $1.59 per common share, in 1990. Our 1991 results represent a 20.8% return on equity, compared with 5.8% in 1990.

Central to this effort was our constant attention to systematic management of risk and control of expenses, which contributed to exceptional profits in a volatile environment. Equally important, our company continued to lay the groundwork for strong and consistent future earnings through unrelenting emphasis on quality client service.

"Breaking the Mold"

The theme of this year's annual report, "Breaking the Mold," is an expression of the singular strengths that set Merrill Lynch apart from the rest of the financial services industry. In evaluating our position in the industry in January, Standard & Poor's stated that "Merrill Lynch is unique among rated securities firms by virtue of having both the largest retail brokerage franchise in the country and powerful market positions on the institutional side of the business." It concluded: "Merrill Lynch's unique franchise is well positioned to profit from the ongoing evolution of the financial services industry." This goes to the heart of what the Merrill Lynch strategy has been for many years.

In the late 1970s, Merrill Lynch made a commitment to become a major force in the global capital markets. This challenge entailed considerable costs, and from the outset we faced formidable competition. Nevertheless, we were convinced that our firm had extraordinary potential to build leading market positions in serving both the investor and the securities issuer. We believed then, as we do now, that our clients and our shareholders deserve no less.

Needless to say, this goal was not easily attained. Other securities firms took aim but fell short. Many people believed it would not be profitable for a brokerage firm with a large individual client base to establish a major presence in the capital markets.

That assessment was wrong. Today, Merrill Lynch stands alone as a dominant financial services firm for both individual and institutional investors and as one of the handful of top-tier capital markets firms worldwide. Moreover, the complementary nature of these franchises is enhancing both the service we render to all of our clients and the returns we earn for shareholders.

During 1991, many industry observers took note of Merrill Lynch's accomplishments. As one securities analyst wrote: "Merrill has emerged from the financial turmoil of the past few years with its name, capital, ratings and distribution power intact, factors that should enable the company to gain share in all of its markets."

Among the Year's Highlights:

- Total client assets in Merrill Lynch accounts worldwide increased 17% to a record $435 billion, far ahead of our nearest competitor. This extraordinary growth in assets entrusted to us represented an average increase of $242 million per business day.
- Assets under management by Merrill Lynch Asset Management increased 12% to a record $123 billion. The amount of assets under management in the Merrill Lynch Consults℠ service doubled for the second year in a row, reaching a total of more than $5 billion.
- For the fourth consecutive year, our company was the leading underwriter of both U.S. and global debt and equity securities. Worldwide, Merrill Lynch served as lead underwriter for 13% of all new issue volume, representing $111 billion in new debt and equity.
- Merrill Lynch was named "Global Bond House of the Year" by *International Financing Review,*

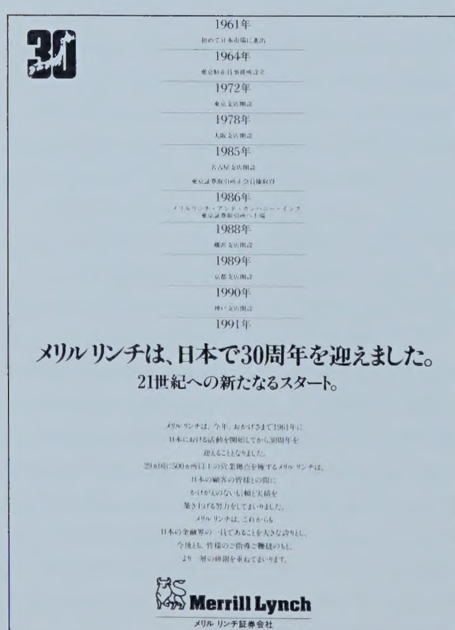
IN 1991, OUR COMPANY'S REPUTATION, WE BELIEVE, HAD A DIRECT, POSITIVE IMPACT ON THE BOTTOM LINE. IN FACT, WE HAVE BEGUN TO THINK OF THIS CONCEPT AS OUR "RETURN ON INTEGRITY."

Merrill Lynch's Custody Support Department has developed image-processing technology that adds new efficiency to our certificate handling capability.

which also recognized our market dominance in Medium-Term Notes and swaps. We also ranked No. 1 in the 1991 *Euromoney* Poll as borrowers' favorite capital raiser in the international markets.

- Merrill Lynch was lead manager or adviser in a number of the year's most significant investment banking transactions.
- The company continued to be a leader in listed equity block trading, with a 9.5% market share, trading 2.7 billion shares.
- Our effective cost control and improved risk management contributed to record employee productivity, with net revenues per employee rising 28% from 1990 levels.
- We maintained one of the strongest balance sheets in the industry, with $86.3 billion in assets and an 18% increase in total shareholders' equity to $3.8 billion.
- The ratings of our company's debt securities were upgraded by Fitch, Moody's and Standard & Poor's, and were reaffirmed by Duff & Phelps.
- We celebrated our 30th anniversary in Japan, and for the fifth consecutive year, Merrill Lynch was named the favorite foreign securities firm in a survey of Japanese corporations conducted by *Nihon Keizai Shimbun.*

These achievements were attained in an operating environment that was significantly more favorable than 1990's. Due in part to an increase in activity levels among investors and issuers alike, total revenues rose 11% to $12.4 billion. Revenues net of interest expense rose 25% to a record $7.3 billion. Specifically, commissions, principal transactions and revenues from investment banking, asset management and custodial fees all rose substantially.



Key Strategic Decisions

We were able to take full advantage of these favorable market conditions, thanks to the successful implementation of several key strategic decisions: A sharpening of our company's focus on core businesses; building a superior capital markets franchise; refining our individual client strategy to emphasize asset-gathering and fee-based revenues; the 1989 restructuring to adapt to fundamental industry and market changes; and the initiation of strengthened cost reduction and risk management programs.

These strategies have created value for our shareholders. In a November 25 feature article, *Business Week* noted that our company has been a leader "in transforming volume into profits."

We have always taken a long-term approach to the global marketplace. In 1991, we marked our 30th Anniversary in Japan. The headline translates: "Merrill Lynch celebrates 30 years in Japan with a commitment to the future."

We are mindful that market conditions in 1992 may not remain as favorable as in 1991. Therefore, we are determined to continue managing both our costs and our risks carefully. At the same time, we will continue to invest in businesses that offer outstanding promise.

Last November, for example, we established Merrill Lynch Derivative Products, Inc.—a special subsidiary dedicated to swaps, the fastest growing segment of the capital markets worldwide. This new subsidiary, which was recognized as a major industry innovation, was rated Triple-A and already has significantly enhanced our position as a swap counterparty.

We want all Merrill Lynch employees to be "relationship managers" with clients. To better serve individual clients, we continue to invest heavily in training and information systems for our Financial Consultants. Through our 11,600 FCs worldwide, individual clients have access to unsurpassed financial products, services, counseling and guidance. Similarly, in serving corporate, governmental and institutional clients, we emphasize long-term relationships, as well as a team approach to understanding client goals and marshaling all the resources of our company to help achieve them.

Return on Integrity

In institutional and individual client markets alike, Merrill Lynch's most important asset is our reputation for ethical conduct in the marketplace. This "tradition of trust" is more than a matter of corporate conscience. In 1991, our company's reputation, we believe, had a direct, positive impact on the bottom line. In fact, we have begun to think of this concept as our "Return on Integrity." Throughout the year, we continued to strengthen our corporate governance—the internal systems by which we ensure compliance and control over costs, risk, equal employment opportunity and compensation.

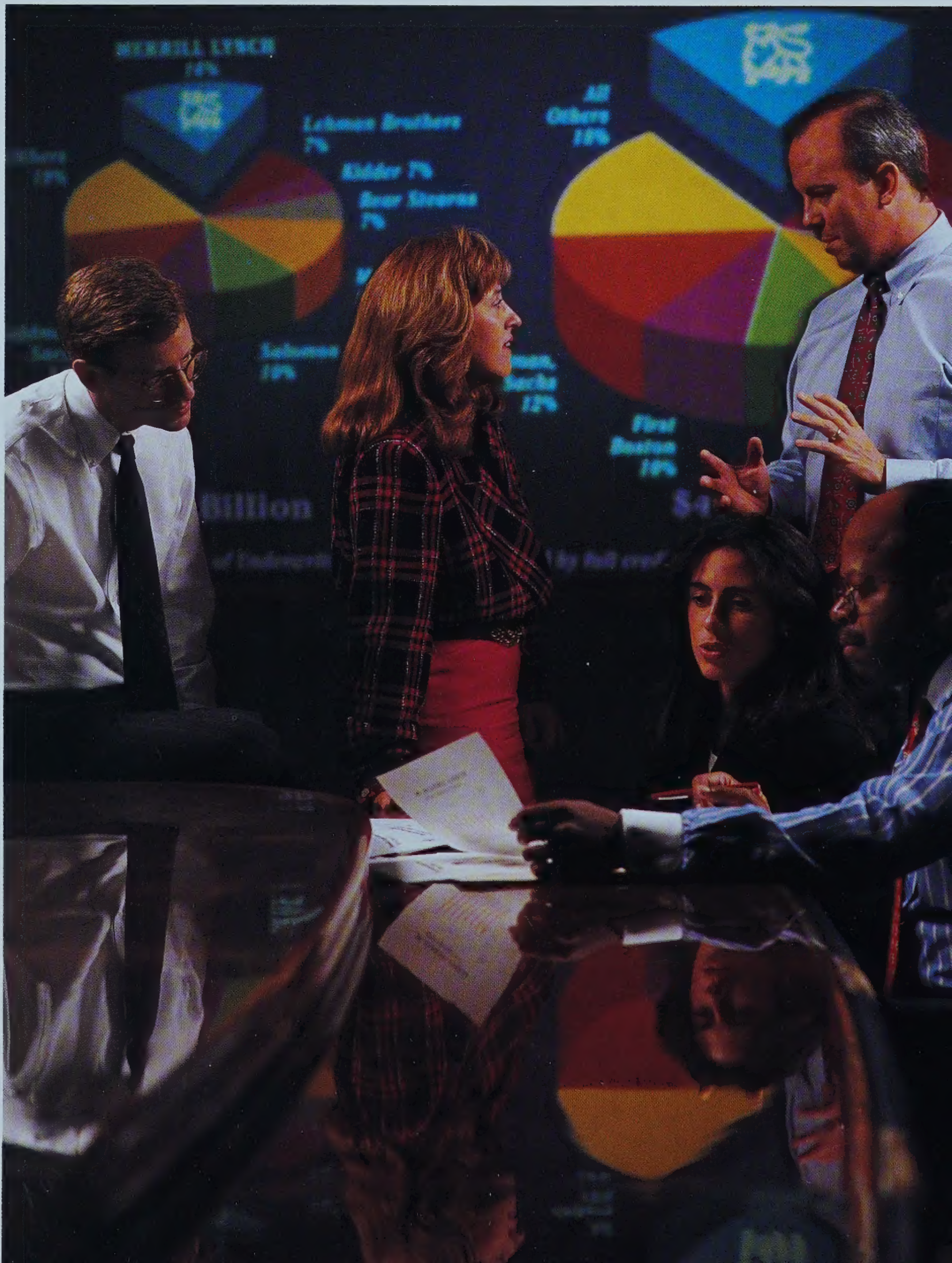
The Political and Economic Outlook

As 1992 began, the U.S. and other major world economies remained sluggish, with prospects for recovery by mid-year. We continue to be optimistic not only about 1992, but about the rest of the nineties as well. Ultimately, the U.S. economy will reap real benefits from the end of the Cold War and the vastly decreased risks of military conflict, from the worldwide spread of democracy and free market principles and from the restructuring of our industries and continued low inflation.

We are also very bullish about the future of Merrill Lynch. Our company is ideally positioned to benefit from the growth of cross-border capital flows and from the need of companies and governments to compete for capital and trade on a global basis.

In order to strengthen themselves, companies increasingly will need to deleverage their balance sheets and issue new equity. Governments and their affiliates will seek to rebuild their infrastructures and to improve economic efficiency through privatizations. We are among the few global capital markets firms that can bring these issuers together with the right investors.

At the same time, the numbers of Americans retiring or nearing retirement will increase



Attention to the management of cost and risk remains a top priority for our corporation.

dramatically throughout the 1990s and beyond, as will the number of affluent households. They will need sound financial planning and investment opportunities—areas in which Merrill Lynch is a recognized leader.

For a number of years, we have been advocating the adoption of government policies to encourage saving and investment, rather than punishing them. This idea is now gaining broader acceptance. As the political debate continues, we will remain a strong public advocate for such devices as revitalized Individual Retirement Accounts, tax-advantaged family savings plans and reduced taxation of long-term capital gains. These are the tools individuals need to plan for their own futures. They are also the tools our nation needs to encourage productivity-enhancing investments that will make our economy more competitive.

With the unraveling of the Soviet Union and the spread of free market principles worldwide, there has never been a more optimistic moment in human history. Global military competition has suddenly given way to global economic competition, creating unprecedented opportunities for entrepreneurs and investors alike.

As one of the few firms with global franchises serving both issuers and investors, we believe the years ahead will be exciting ones. No company can control the economic and market climate in which it operates, but we can control

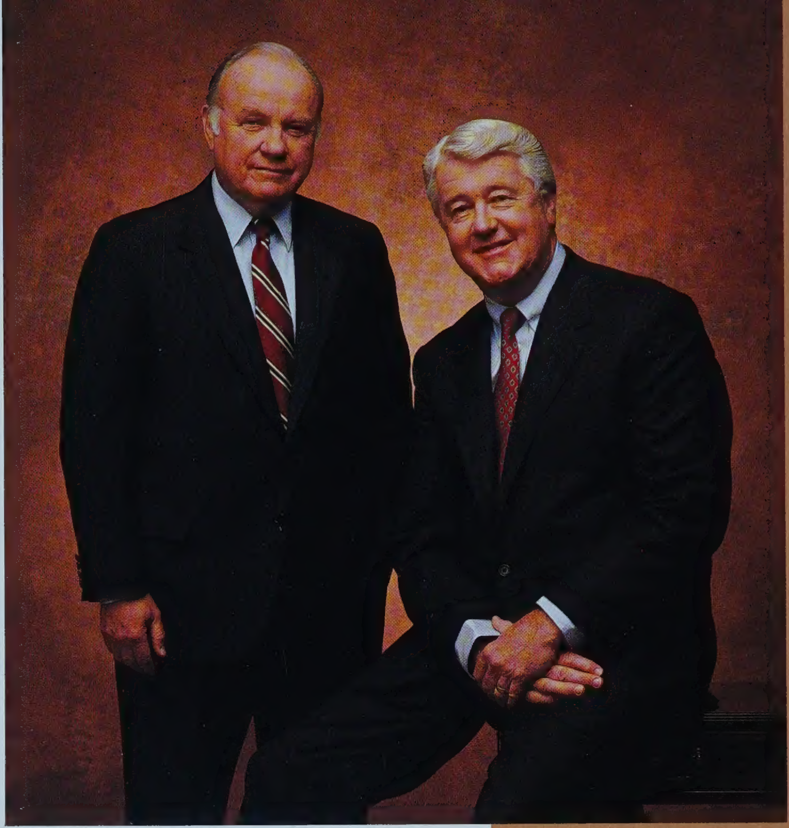
MERRILL LYNCH & CO., INC. EXECUTIVE MANAGEMENT COMMITTEE

Seated (Left to Right): **EDWARD L. GOLDBERG**, *EVP, Operations, Systems and Telecommunications;* **BARRY S. FRIEDBERG**, *EVP, Investment Banking Group;* **JEROME P. KENNEY**, *EVP, Corporate Strategy & Research;* **DAVID H. KOMANSKY**, *EVP, Equity Markets Group;* **THOMAS H. PATRICK**, *EVP, Insurance Group*

Standing (Left to Right): **HERBERT M. ALLISON, JR.**, *EVP, Finance & Administration;* **JOHN L. STEFFENS**, *EVP, Private Client Group;* **STEPHEN L. HAMMERMAN**, *EVP, General Counsel;* **DANIEL T. NAPOLI**, *SVP, Risk Management;* **ROGER M. VASEY**, *EVP, Debt Markets Group;* **ARTHUR ZEIKEL**, *EVP, Asset Management Group*

William A. Schreyer

Daniel P. Tully



our level of quality, our costs, our risks, and our reputation for integrity. By doing these things, we intend to continue building the world's premier financial services company, one that delivers the best service to clients, creates an exciting and rewarding environment for employees, and maximizes the value of our shareholders' investment.

We are confident that we have the strategies, the financial strength, the reputation and the people to achieve the best possible performance in whatever market and economic conditions prevail. In all our years with Merrill Lynch, we have never been prouder of our company's accomplishments, nor felt better about our future.

William A. Schreyer

Daniel P. Tully

WILLIAM A. SCHREYER
Chairman and
Chief Executive Officer

DANIEL P. TULLY
President and
Chief Operating Officer

March 4, 1992

On February 24, Chairman and Chief Executive Officer William A. Schreyer announced that the Board of Directors had elected President and Chief Operating Officer Daniel P. Tully to the additional title and responsibilities of Chief Executive Officer, effective May 1.

Mr. Schreyer will remain Chairman of the Board, as well as Chairman of the Executive Committee and the Finance Committee of the Board, until his retirement on June 28, 1993. Mr. Schreyer, who will turn 65 in 1993, has served as CEO since 1984.

Mr. Tully's election as CEO is part of a succession plan carefully designed to ensure continuity of leadership and continued progress in Merrill Lynch's global business activities.

Mr. Tully began his career at Merrill Lynch in 1955 and has been President and COO since 1985. Previously, he held a succession of top management positions in the company's private client system, where he orchestrated Merrill Lynch's shift from a product-driven sales organization to a client-focused marketing approach, an effort that has led to the company's successful asset gathering and asset management strategy.

Individual Clients

OUR CORPORATION'S COMMITMENT TO CLIENTS BEGINS WITH GIVING OUR FINANCIAL CONSULTANTS THE MOST EXTENSIVE TRAINING PROGRAMS IN OUR INDUSTRY.

For more than 50 years, Merrill Lynch has led the way in helping people plan their financial futures and in providing the tools and guidance to build, manage and preserve wealth. Through our Financial Consultants, who we believe are the best trained and most professional in the financial services industry, our company delivers the highest level of advice and counsel—along with superior research, investment products, client service, and the Merrill Lynch "tradition of trust."

Our Financial Consultants focus on bringing added value to the investment process and on developing long-term client relationships. As a result, Merrill Lynch is positioned to play an important role in the years ahead, as vast numbers of Americans and others around the world discover a need to save and invest for the future.

In America and elsewhere, people can expect to live longer than ever before. Thus, there has never been more need to save and invest for a comfortable retirement. Nor has it ever been more challenging to finance a child's education, to help with the purchase of a child's first home, or to preserve an estate from one generation to the next.

This is especially critical for the 75 million post-war Baby Boomers now approaching middle age, who do not have the same ingrained habits of saving and investing as their parents.

The Premier Team of Financial Consultants

The key to achieving preeminence in our industry is the Merrill Lynch Financial Consultant. Our FCs, in more than 500 offices in the United States and 28 other countries, are skilled at knowing and anticipating clients' financial needs and at charting the right financial course for each of them.

Our Financial Consultants draw upon the Merrill Lynch specialists in insurance, tax and estate planning, trusts and small business. They are supported by Merrill Lynch's highly ranked Global Securities Research Group.

Merrill Lynch clients also benefit from superior products and services. We created such important industry innovations as our pioneering Cash Management Account® (CMA®) and Capital Builder℠ Account (CBA®), and we have the leading market share in accounts of these types. Merrill Lynch clients can choose from a wide array of professional money management services, including more than 120 investment portfolios managed by Merrill Lynch Asset Management (MLAM).

Merrill Lynch remains committed to helping educate clients and the public about financial planning and investing. In 1991, over a million people attended seminars conducted by our Financial Consultants, and Merrill Lynch published and distributed extensive educational materials through mailings, seminars, our branch offices and the media.

All of this explains why people put their trust in Merrill Lynch. During 1991, total assets in Merrill Lynch client accounts rose 17% to $435 billion—equivalent to an increase of $242 million per business day. The funds in these accounts represent almost 2.5% of all U.S. household financial assets.

Moreover, client surveys indicate continued high levels of satisfaction with our advice and service. And Merrill Lynch clients continued to benefit from our rigorous attention to regulatory compliance.

Training: An Essential Part of Our Strategy

Our corporation's commitment to clients begins with giving our Financial Consultants the most extensive training programs in our industry. Indeed, Merrill Lynch has set the industry standard for training since 1945, the year we established the first training school for FCs.

Today, while some firms are decreasing their commitment to training, we continue to increase ours. More than 4,000 FCs were enrolled in formal training programs last year. In 1991, we introduced our structured, two-year Professional

Our Financial Consultants bring added value to clients by helping them understand the complex issues related to estate planning.

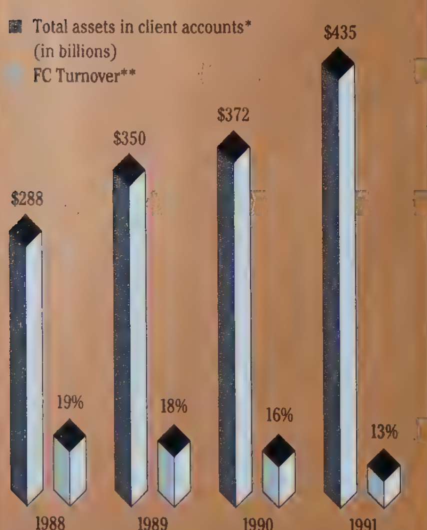
At our training center in Plainsboro, New Jersey, Financial Consultants attend regular presentations that help them advise clients on the changing investment environment.

MLAM Global Mutual Fund Rankings*

- ML Pacific Fund Ranked #1 for the Past 10 Years and #1 for the Past Year
- ML Global Bond Fund for Investment & Retirement Ranked #1 for the Past 5 Years
- ML EuroFund Ranked #1 for the Past Year
- ML Global Allocation Fund Ranked #1 for the Past Year

* Source: *Wall Street Journal* ad of November 6, 1991 citing Lipper Analytical Services, Inc., September 30, 1991

Strategic Successes: Client Assets Increase, FC Turnover Decreases



*Source: Merrill Lynch Market Planning
**Source: Merrill Lynch Sales Management

Development Program for newly hired FCs. At the same time, the number of veteran FCs in advanced training programs at our Plainsboro, New Jersey training facility increased by 26%.

In addition, we instituted a unique incentive program for FCs to recognize high standards of professionalism and encourage the development of long-term client relationships. We also enhanced support for FCs in many other ways—for example, by introducing a comprehensive development program for Administrative Assistants.

Because of our firm's strong FC support and client focus, our Financial Consultants tend to stay with Merrill Lynch and their clients with them. The turnover rate for Merrill Lynch FCs continues to decline. In 1991, our FC turnover rate was 13%, compared with 16% in 1990, 18% in 1989 and 19% in 1988.

During 1991, we continued to invest in better information systems to further strengthen client service. Through PRISM®, Merrill Lynch's state-of-the-art workstation, FCs can obtain market data, account information and research, as well as execute orders in listed equities directly on the exchange floor. In addition, clients receive prompt confirmation of order executions, usually in less than a minute. This unique direct execution capability also reduces the possibility for error.

And to further enhance client service, the firm created service teams to improve problem resolution. Substantial new cost efficiencies also have been achieved.

The Merrill Lynch Approach: "Get Rich Slowly"

Merrill Lynch advocates a "Get Rich Slowly" approach to building and preserving capital. We encourage clients to ignore short-term market fads and instead focus on a disciplined, long-term investment plan, based on three vitally important elements—asset accumulation, asset allocation and asset management. Through careful attention to these precepts, Financial Consultants help clients chart their own financial futures through good times and bad.

To help clients decide upon the appropriate asset allocation strategy, FCs develop a thorough understanding of each client's financial needs, tolerance for risk, and long-term plans. Only then can they recommend how the client should diversify his or her portfolio among stocks, bonds and cash, domestically and internationally, so as to maximize returns and minimize risk over time.

To assist in this process, Merrill Lynch introduced an enhanced client profiling system during the year. This computerized system is designed to evaluate each client's overall financial assets, needs and goals, as well as an appropriate level of risk. The company has developed a set of asset allocation portfolio guidelines based on six different risk/reward profiles to help FCs guide their clients in the appropriate diversification of each client portfolio.

Merrill Lynch also devotes extensive resources to helping clients respond to changes in the world economy and markets. During 1991, with interest rates declining to their lowest levels since the 1970s, Merrill Lynch launched a "Don't Get Caught Short" campaign–a message to clients and the public that continued investments in short-term fixed-income securities can be expected to provide lower rates of return in the 1990s than in previous years.

Our advice, delivered through statement enclosures, advertisements, and our FCs, was that to stay ahead of inflation and build wealth, investors must look to fixed-income vehicles with longer maturities, as well as equities. When Merrill Lynch began sounding this message in September 1991, the return on money market funds was 5.75%. By the beginning of February 1992, the return had fallen to approximately 4%.

Merrill Lynch's market experts believe that in the 1990s nearly every investor, even the most conservative, should allocate some portion of his or her portfolio to equities, as protection against the corrosive effects of inflation and to help prepare for perhaps several decades of retirement.

Historically, stocks have provided better returns than other financial assets over the long term. We believe they will continue to do so. In the winter of 1991, we communicated this point to thousands of clients through a videotape of our top investment professionals discussing the risks and rewards of investing in equities.

Merrill Lynch continues to strongly advocate tax policies that encourage greater savings and investment, including proposals for an expanded Individual Retirement Account. We also continue to feel a responsibility to convey the importance of retirement planning to the public at large. Our third annual retirement planning survey, "America's Retirement Savings Crisis," demonstrates that a growing number of pre-retirees are concerned about their ability to maintain financial independence after retirement.

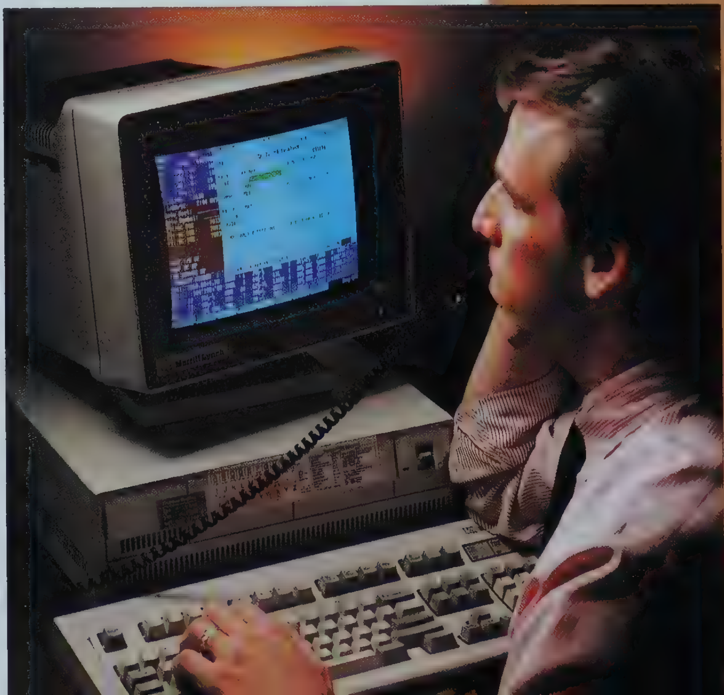
Our survey showed that the majority look to Social Security or pension benefits as their main source of retirement income. Yet even today, the greatest source of retirement income for people over age 65 with incomes greater than $20,000 a year is personal savings and investments. This source of income is likely to become even more important for retirees in the future.

This is one reason why, along with our other educational programs, Merrill Lynch launched Merrill Lynch Master Network℠, in 1991. Under this program, our Financial Consultants work with corporations in multiple locations to conduct seminars and workshops to help employees plan their own financial futures.

A Leader in Retirement and Estate Planning

Merrill Lynch remains a leader in helping clients plan for financial security in later years. Individual retirement plan assets at Merrill Lynch increased 26.5% in 1991 to more than $60 billion. Individual Retirement Rollover Accounts (IRRA®s) represent half of those assets, almost $30 billion. IRRA account openings increased more than 19% during the year, while the number of Simplified Employee Pension Plans increased 25%.

Retirement planning goes hand-in-hand with another of our clients' most pressing concerns–estate planning. In addition to investment



Through our unique order entry system, Financial Consultants get confirmation of client transactions at their desks, usually in less than a minute.

WITH INTEREST RATES DECLINING TO THEIR LOWEST LEVELS SINCE THE 1970s, MERRILL LYNCH LAUNCHED A "DON'T GET CAUGHT SHORT" CAMPAIGN–A MESSAGE TO CLIENTS AND THE PUBLIC THAT CONTINUED INVESTMENTS IN SHORT-TERM FIXED-INCOME SECURITIES CAN BE EXPECTED TO PROVIDE LOWER RATES OF RETURN IN THE 1990s THAN IN PREVIOUS YEARS.

OUR MARKET ECONOMISTS PREDICT THAT ECONOMIC GROWTH IN PARTS OF ASIA, LATIN AMERICA AND EUROPE WILL OUTPACE THE U.S. DURING THE 1990S. WE OFFER A VARIETY OF MUTUAL FUNDS DESIGNED TO CAPITALIZE ON OPPORTUNITIES IN ALL GLOBAL MARKETS.

considerations, estate planning entails complex issues that are often best addressed by experienced insurance and trust professionals. To support our FCs in this area, Merrill Lynch has developed a network of more than 100 Estate Planning and Business Insurance Specialists throughout the U.S.

This group, many of them Chartered Life Underwriters, come from insurance, legal, and accounting backgrounds. They have proficiency in estate, tax and business planning, and they work in partnership with our FCs and clients' own advisers to offer effective strategies for creating, preserving and protecting wealth.

Together, our FCs and Estate Planning and Business Insurance Specialists help clients meet their needs with a range of products from our own insurance companies and from independent insurers. These include investment-oriented policies, such as variable life insurance and variable annuities designed to provide valuable insurance protection and funds for retirement; traditional life insurance policies designed to meet estate planning and business insurance needs; and enhanced long-term health care policies designed specifically for asset protection and quality care.

During 1991, Merrill Lynch Insurance Group completed its consolidation into two insurance companies–Merrill Lynch Life Insurance Company and ML Life Insurance Company of New York–more closely aligning these businesses to the Merrill Lynch name. These two companies and their affiliate, Merrill Lynch Life Agency, represent a $13.4 billion insurance organization that serves clients owning more than 250,000 policies. This includes more than $9.6 billion in invested assets and $3.2 billion in separate accounts.

The firm also completed consolidation of its insurance service center in Jacksonville, Florida, and, in 1992, we will complete the installation of a new computer system to further streamline policy processing and improve service. In January 1992, Merrill Lynch signed a letter of intent to purchase from Monarch Life Insurance Company the variable life service center in Holyoke, Massachusetts, which provides administrative services for Merrill Lynch's 58,000 variable life insurance policies.

Merrill Lynch Insurance Group provides products that build on the firm's overall skills to meet important client needs. Policies underwritten by Merrill Lynch's own insurance companies are backed by sound investment standards and are designed to give clients competitive returns and investment flexibility.

Through Merrill Lynch Trust Company and its affiliates, our FCs and Regional Trust Representatives help clients structure trust accounts to safeguard their own and their families' financial futures. The Philanthropic Financial Services Group works with clients and their advisors to tailor charitable trusts and family foundations. Assets held in trust and custodial arrangements in our trust companies currently exceed $11 billion.

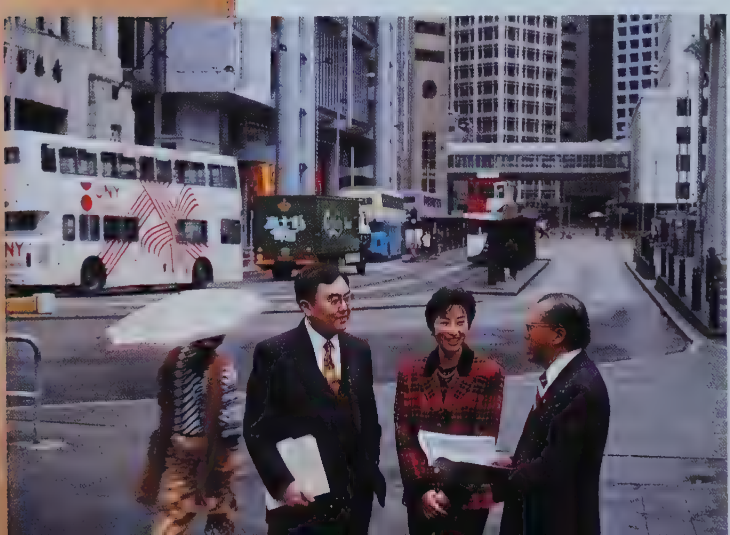
MLAM: Professional Asset Management

Today's investors face a confusing array of sophisticated securities and derivatives, designed to help them confront expanding global investment opportunities, as well as continued volatility in the global marketplace. As a result, many clients are seeking the assistance of professional asset managers.

Increasing numbers of investors are choosing mutual funds and private accounts managed by Merrill Lynch Asset Management. MLAM mutual funds are the cornerstone for a growing number of our investment services–from central asset accounts to insurance programs and 401(k) plans. MLAM's assets under management grew 12% in 1991 to $123 billion.

MLAM continued its superior performance in global money management, with several of its global funds ranking No. 1 in their categories, according to Lipper Analytical Services, Inc. One reason for MLAM's long-term success continues to be the low rate of turnover among key managers. MLAM also remains a leader in client service. In 1991, Morningstar Inc., a mutual fund consultant, once again gave MLAM top rating for the quality of its shareholder reports.

During the year, MLAM introduced 15 mutual funds, from a U.S. Treasury money market fund to a Latin American growth fund, each designed to serve specific client objectives. More than 1,000 discretionary portfolio management accounts were opened with MLAM's Private



Hong Kong's new Merrill Lynch Bank (Suisse) representative office exemplifies our ability to deliver superior private banking service to clients worldwide.

Portfolio Group. The firm launched its first national advertising campaign in support of MLAM mutual funds and professional asset management services.

More Services for Clients

Through the innovative Merrill Lynch Consults℠ service, our FCs also help clients select independent investment managers and monitor their performance—all for a comprehensive annual fee that includes investment advisory costs and transaction charges. This popular service grew rapidly in 1991, with more than 16,000 new accounts. The assets under management in the Merrill Lynch Consults service doubled for the second year in a row, reaching more than $5 billion.

We offer a wide selection of defined asset funds for investors who prefer a "buy and hold" strategy to active management. These funds invest in diversified, professionally selected portfolios of stocks, bonds and international securities.

Merrill Lynch also creates innovative investments that meet clients' diverse needs and risk profiles. One example: Liquid Yield Option℠ Notes, (LYONs®) an alternative equity investment vehicle developed by Merrill Lynch.

Because Merrill Lynch clients have strong interest in tax-free municipal bonds, which minimize the impact of rising state, local and federal taxes, we offer clients a broad selection of municipal issues and diversified funds. During 1991, Merrill Lynch Asset Management created a number of new municipal funds, including the Merrill Lynch MuniYield Fund and several new state funds.

As interest rates declined the firm also helped clients increase their yields through the sale of collateralized mortgage obligations and preferred issues underwritten by Merrill Lynch.

Merrill Lynch also offers clients innovative mortgages and lines of credit for their financing needs. Our pioneering Equity Access® account was introduced in 1982 and is now available in 47 states.

With our PrimeFirst℠ mortgage, FCs help clients purchase and refinance homes in 27 states at rates as low as 1/4% under the prime rate. Applications for over $1.4 billion in PrimeFirst mortgages had been received by the end of 1991. In 1992, we plan to introduce an expanded product line.

Increasing Attention to International Investment Opportunities

Our market economists predict that economic growth in parts of Asia, Latin America and Europe will outpace the U.S. during the 1990s. Our global research team and our presence in all major capital markets give us the knowledge and skill to help clients broaden their investment horizons to Asia, Europe, Latin America and elsewhere.

Through MLAM we offer a variety of mutual funds designed to capitalize on opportunities in all global markets. Assets invested by U.S. investors in non-U.S. markets through MLAM increased significantly in 1991, while assets invested by non-U.S. investors in offshore MLAM funds doubled to $2.2 billion.

Our International Private Banking Group offers a select but growing number of high-net-worth clients outside the U.S. a full and active asset and liability management service. As evidence of its success, the group's revenues grew by 18% during the year.

International Private Banking clients benefit from the combined strengths and superior teamwork of our branch office network, our respected global research and portfolio management teams, and the expertise of our International Private Bank system—including our Swiss bank and international trust companies.

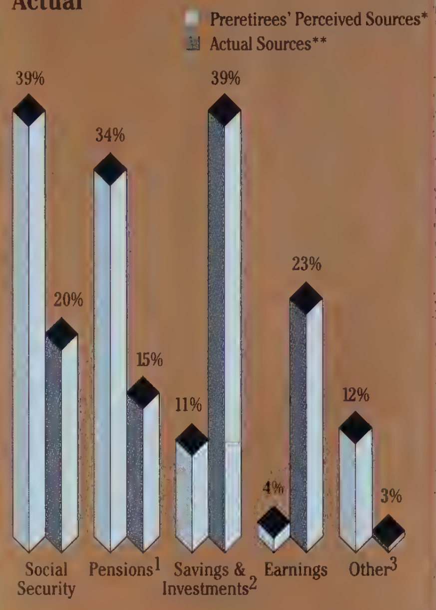
Merrill Lynch International Banks provide global private banking services from regional centers in Geneva, London, Miami, New York and Singapore. They help nearly 700 Financial Consultants in 28 countries outside the U.S. deliver sophisticated cross-border banking and investment services.

In 1991, Merrill Lynch Bank (Suisse) continued to expand, with new offices in Hong Kong and Lugano. In Japan, where we celebrated our 30th anniversary during the year, we also acquired a banking license.

Domestically as well as internationally, Merrill Lynch remains dedicated to helping individual clients develop and implement long-term strategies to meet their financial goals. We believe that no segment of the financial services industry offers greater opportunity for growth.

Our future goes well beyond providing traditional investment products. We deliver integrated financial solutions that address our clients' increasingly varied and complex financial concerns. With our commitment to delivering the best advice, guidance and client service through our highly skilled Financial Consultants, our focus on innovative products and client education, and our 106-year-old tradition of trust, Merrill Lynch is committed to being the world's foremost provider of financial planning, counseling, products and services.

Sources of Retirement Income: Perceived vs. Actual



1 Includes 401(k), profit sharing, stock options and other pension plans

2 Includes IRAs and IRRAs

3 Includes sale of home

*Source: Third Annual Merrill Lynch Retirement Planning Survey 1990
**Source: Department of Treasury 1990

Market Highlights:

- **Total assets in Merrill Lynch client accounts rose 17% to $435 billion—equivalent to an increase of $242 million each business day.**
- **Assets under management by Merrill Lynch Asset Management exceeded $123 billion, and mutual fund sales to domestic clients rose by 54%.**
- **4,000 of our Financial Consultants enrolled in formal training sessions during the year.**
- **Merrill Lynch Insurance Group completed its consolidation into a $13.4 billion organization serving clients with more than 250,000 policies.**
- **International Private Banking revenues increased 18%.**

Small to Mid-Size Businesses and Financial Institutions

MERRILL LYNCH'S SUPERIOR FINANCIAL STRENGTH HAS ENABLED US TO CONTINUE MEETING THE BORROWING NEEDS OF SMALL AND MID-SIZE BUSINESSES AT A TIME WHEN TRADITIONAL LENDERS ARE REDUCING THEIR COMMITMENTS.

Merrill Lynch understands the challenges of both expanding and mature businesses. And we also are committed to helping their owners and managers on an individual level. Our firm takes special pride in serving the distinctive needs of small to mid-size businesses and financial institutions. They represent the fastest growing sector of the U.S. economy, accounting for more than 90% of all new jobs created during 1991.

Merrill Lynch Business Financial Services is a unique team of professionals dedicated to helping these companies thrive in the years ahead, with innovative financial products and services that give entrepreneurs and managers of smaller companies the same tools available to larger organizations.

Working in concert with Merrill Lynch Financial Consultants, our professionals provide a range of services from cash management, financing and retirement planning to evaluating a mature business and developing a plan for its disposition. At the end of 1991, nearly 400,000 small to mid-size businesses and financial institutions had entrusted Merrill Lynch with more than $77 billion in assets, an increase of nearly 20% over 1990.

In addition, through Merrill Lynch Interfunding Inc., our firm provides selected companies with equity, mezzanine and senior financing.

Efficient Cash Management and Financing

Efficient management of working capital is critical to every business. To make the most of their valuable capital, increasing numbers of businesses are turning to Merrill Lynch's powerful cash management tool, the Working Capital Management℠ account (WCMA®). The number of these accounts increased 12% in 1991 to more than 100,000, while assets in WCMA and other business accounts increased 17% to more than $32 billion.

The WCMA account is superior to other business asset accounts in that it combines all the necessary elements for effective cash management. By combining business checking, borrowing, investing, funds transfer services and charge card processing into a single account, the WCMA frees business owners and managers from many day-to-day cash management chores, giving them more time for hands-on business activities.

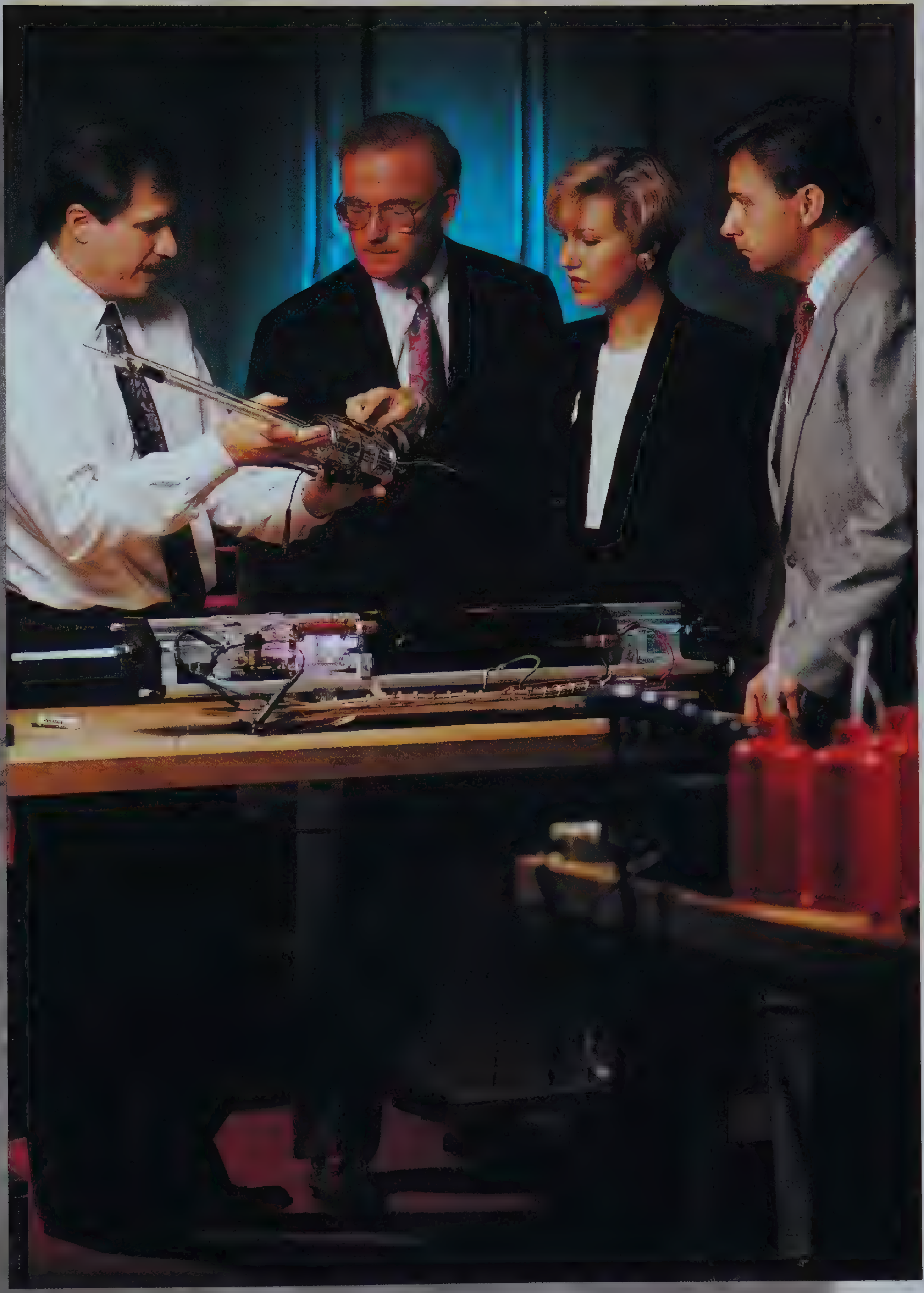
Moreover, the WCMA account helps businesses bring more revenue to the bottom line by automatically paying down outstanding loans and sweeping excess cash into a variety of money market funds. In 1991, the WCMA account began offering electronic charge card processing to retail merchants, chain stores, medical groups and other professional service providers throughout the U.S.

Merrill Lynch's superior financial strength has enabled us to continue meeting the borrowing needs of small and mid-size businesses at a time when many traditional lenders are reducing their commitments. In 1991, we expanded our team of Regional Financing Specialists, who work with Financial Consultants and their clients nationwide to help them obtain financing. Loan commitments generated from our innovative WCMA Commercial Line of Credit and our term loan financing activities grew by a record 35% during the year.

The WCMA account also provides small and mid-size businesses with a wide array of tax-free, tax-advantaged and taxable investments to help them meet both short- and long-term needs. In 1991, investment in these areas resulted in a 40% increase in commission revenues, which totaled more than $100 million. At the same time, our Flexicash® service—an on-line, tri-party repurchase agreement investment program—increased in total assets to a yearly average of $1.3 billion.

Funding Middle Market Leveraged Transactions

Merrill Lynch Interfunding provides equity, mezzanine and senior financing for selected, growth-oriented middle market companies. Backed by the broad resources of Merrill Lynch and distinguished by the quality and experience of its own professional team, Interfunding now holds a $1.3 billion portfolio of debt and equity invest-



Spectra Gases, Inc., an Irvington, New Jersey manufacturer of specialty gases, manages its working capital through the Merrill Lynch WCMA account. The company also sponsors a comprehensive employee retirement program utilizing Merrill Lynch 401(k) and RCMA account services.

AS THE U.S. POPULATION AGES, THERE IS A GROWING NEED FOR EFFECTIVE ESTATE AND BUSINESS SUCCESSION PLANNING. OUR FINANCIAL CONSULTANTS WORK CLOSELY WITH BUSINESS OWNERS TO PROVIDE EFFECTIVE SOLUTIONS.

ments in some 60 U.S. companies in a wide spectrum of industries.

Interfunding has built a highly successful investment record on the basis of rigorous business and financial analysis and a conservative, long-term buy-and-build approach. We invest in companies that can create value through growth in earnings and cash flow.

Consistent with this approach, Merrill Lynch Interfunding develops a working partnership with each business, looking to existing management for the operational skills required for success. Often, we provide the resources these companies need to make strategic acquisitions or to expand operations, and we also offer strategic and financial counseling from our team of experienced professional advisors.

Effective Business Retirement Plan Solutions

Merrill Lynch is helping a growing number of small and mid-size businesses design and implement cost-effective and efficient retirement programs. With the almost universal decline of defined benefit pension plans and the shift toward defined contribution programs, such as 401(k) and profit-sharing plans, Merrill Lynch is particularly well positioned to serve business retirement plan sponsors and plan participants.

Through our Financial Consultants, business owners and managers have access to a comprehensive array of business retirement plan services, including turnkey 401(k) services. Our FCs draw upon the expertise of Merrill Lynch Pension Consultants and retirement planning specialists in helping businesses choose the right plans and services for both owners and employees.

In 1991, we introduced the RCMA℠ Prototype Retirement Plan and RCMA Administration Service to complement our highly successful RCMA account. In 1991, Merrill Lynch designed three times the number of new prototype and 401(k) plans as in 1990.

From simplified, low-cost prototype plan design to complete record-keeping and trust services, Merrill Lynch now provides retirement investments to more than 70,000 small businesses nationwide. Total business retirement plan assets stand at approximately $30 billion. This includes about $3 billion in assets for which Merrill Lynch Trust Company and its affiliates serve as trustee through the Merrill Lynch Cash Management Account® Trust Service for Business Retirement Plans.

Nationwide, only 27% of businesses employing 100 to 500 people have adopted 401(k) plans, and only 8% of those employing fewer than 100 people have them. Nevertheless, 401(k) plans are among the most attractive retirement plan options for small and mid-size businesses, and the number of plans is projected to grow dramatically.

With our turnkey 401(k) service, clients receive simplified plan design, comprehensive investment services, superior record keeping and support, integrated trust services and extensive employee education programs. In 1991, we further expanded our network of administrators for 401(k)s and other retirement plans to include a number of nationally recognized firms.

Through our Financial Consultants, clients also can choose from a full range of retirement plan investments, including equity and fixed-income securities and a number of Merrill Lynch Asset Management mutual funds.

We offer a unique investment vehicle for employee benefit plan participants seeking a high degree of safety and liquidity, plus income—the Merrill Lynch Retirement Preservation Trust. This trust invests in a broadly diversified portfolio of Guaranteed Investment Contracts and U.S. government agency obligations.

As retirement plan assets grow, many businesses seek discretionary asset management and related services to help plan sponsors and trustees satisfy their fiduciary obligations. The rapidly growing Merrill Lynch Consults℠ service offers clients an in-depth analysis of their retirement portfolio objectives, assistance in professional money manager selection, discretionary portfolio management and portfolio performance measurement.

Serving Regional and Local Financial Institutions

Merrill Lynch works extensively with small and middle-market commercial banks, thrifts, credit unions, insurance companies, investment advisors, endowments and foundations. Our renowned global research team and execution power, combined with our commitment to delivering the highest level of service, makes Merrill Lynch uniquely suited to serve these clients.

In 1991, assets held in Merrill Lynch accounts by local and regional financial institutions increased to more than $10 billion. In addition, we further strengthened our commitment to these institutions by creating the Merrill Lynch Business Financial Services Institutional Group.

These institutional clients benefit from a number of unique services. One example is the Merrill Lynch Equity Screen®, which provides investment advisors and professional money managers with proprietary investment analysis. In addition, Merrill Lynch Asset Management has created the Merrill Lynch Fund for Institutions Series–three separate funds specifically designed for institutions. They currently have more than $4 billion in assets.

Through Merrill Lynch Global Custody Services, we also offer custodian services with multi-currency reporting capabilities and work stations that link us directly to the client. At the end of 1991, the firm provided these services to 96 business clients, with assets in custody of $10 billion, a 250% increase over 1990.

We approach our business and institutional clients with a commitment to building long-term relationships at the local level. At every stage of the business life cycle, we stand ready to help clients achieve their objectives–with innovative financial tools designed to promote business growth and profitability, and with advisory services that reflect the depth of experience and the full resources of our entire firm.

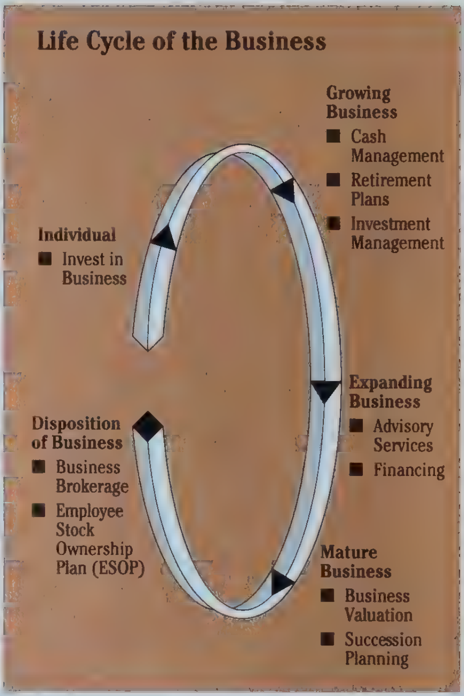
Business Succession Planning

As the U.S. population ages, there is a growing need for effective estate and business succession planning. Most business owners have a high percentage of their personal assets invested in their businesses. Because such investments tend to be illiquid, no business owner's estate plan is complete without provisions for business succession.

With the support of experienced specialists in our Business Brokerage and Valuation unit, our Financial Consultants work closely with business owners and their advisors to arrive at effective solutions in this critical area. They also can call upon the expertise of our specialists in insurance and trusts, which are often key to business succession planning. In 1991, we provided valuation services for client businesses worth approximately $850 million.

We help business owners:

- Understand all available alternatives for succession and the financial impact each alternative has on the business itself.
- Assess the worth of the business and analyze its overall capital structure to support business owners' future plans for the company.
- Implement appropriate strategies to convert business equity into other assets, creating new financial opportunities for the client.



Market Highlights:

- **Nearly 400,000 small to mid-size businesses and financial institutions entrusted us with more than $77 billion in assets, an increase of nearly 20% over 1990.**
- **The number of Working Capital Management accounts, our powerful cash management tool, increased 12% to more than 100,000.**
- **The number of small businesses for whom we provide retirement investments exceeded 70,000, and total business retirement plan assets reached $30 billion.**
- **We continued to help regional and local financial institutions meet their funding needs and achieve their strategic goals.**

The Merrill Lynch Consults service provides in-depth analysis of portfolio goals and objectives, professional money manager selection, discretionary portfolio management and performance measurement.

Large Corporations and Institutional Clients

As corporations around the world rushed to refund high coupon debt and raise additional capital, Merrill Lynch helped issuing clients take maximum advantage of the favorable environment.

Merrill Lynch's goal is to render the highest level of service to our corporate clients in helping them meet all of their financing and strategic objectives. In 1991, our leadership in virtually all facets of the global capital markets—in origination, trading, research and distribution—enabled us to achieve this goal during one of the greatest market surges in history.

The year began with the onset of the Gulf War in January and saw the Dow Jones Industrial Average rise from 2,633 to 3,168 by year's end. The NASDAQ Composite Index rose 57%, and short-term interest rates fell to levels unseen since the 1970s. Corporations around the world rushed to refund high coupon debt and raise additional debt and equity. Worldwide debt and equity financing activity exceeded $868 billion, an increase of 65% over 1990.

Merrill Lynch helped its issuing clients achieve their objectives in this favorable environment. Moreover, while the pace of structural change slowed in various world economies—as measured by reduced mergers and acquisition activity—Merrill Lynch continued to be of service in advising clients on acquisitions, divestitures, joint ventures and similar ways of implementing strategic plans.

- Merrill Lynch maintained its lead in U.S. debt and equity underwriting for the fourth straight year, with a record $101 billion in financings, or 17.1% of total funds raised. Worldwide, we increased our first-place share, serving as lead underwriter for $111 billion in new issues, or 13% of total funds raised.
- The company established an industry record for total domestic debt underwriting of $84.2 billion, shattering by 72% our previous industry record set in 1990.
- Merrill Lynch was named "Global Bond House of the Year" by *International Financing Review* and ranked No. 1 in the 1991 *Euromoney* Poll as borrowers' favorite capital raiser in the international markets. In acknowledgment of our innovation in swaps and our market dominance in Medium-Term Notes, *IFR* also named Merrill Lynch "Swap House of the Year" and "MTN House of the Year."
- We maintained our powerful positions in equity financing. We ranked No. 1 in U.S. lead and co-lead managed transactions combined, with 132 equity and equity-linked offerings valued at $22.7 billion (excluding closed-end funds). Merrill Lynch was lead or co-lead in 35.6% of all such offerings. Since 1987, our worldwide share of lead-managed equity and equity-related originations has more than doubled—from 6% to 14%.
- The company continued to be a leader in listed equity block trading with a 9.5% market share, trading 2.7 billion shares, and exceeding our closest competitor by 13%. During 1991, Merrill Lynch's NASDAQ market share in the securities in which we make markets increased from 9% to 12%. We also maintained one of the strongest distribution networks in the industry.

Teamwork: The Key to Client Service

Merrill Lynch's leadership in the capital markets stems from the quality of our client relationships and the level of service we deliver. The key to our success is teamwork—focusing all the experience, talent, creativity and diverse resources of Merrill Lynch on meeting each client's special needs.

During the year, for example, Merrill Lynch lead-managed a 144A debt private placement financing for Schering-Plough Corporation, one of the largest ever. By identifying opportunities in both the equity and debt markets, in this transaction we helped the client achieve significant cash flow savings (see page 21).

Teamwork was also the key to the $827 million refinancing of the high-yield debt Del Monte Corporation had incurred during its 1990 leveraged buyout. Using our diverse debt placement capabilities, Merrill Lynch devised a unique offering resembling a bank loan, filling a void created by the difficulty experienced by non-investment grade borrowers in securing loans

Executives of Schering-Plough Corporation discuss financial alternatives with Merrill Lynch investment bankers.

OUR TRIPLE-A RATED SWAPS SUBSIDIARY, MERRILL LYNCH DERIVATIVE PRODUCTS, INC., WAS IMMEDIATELY RECOGNIZED AS A MAJOR INDUSTRY INNOVATION.

from commercial banks. This transaction raised more money from foreign and domestic investors at lower cost than could have been accomplished through more traditional forms of debt.

In addition, our sole-managed underwriting of Eastman Kodak Company's Liquid Yield Option℠ Notes, the largest LYONs® transaction ever, which raised $975 million in proceeds, and our unique $1.5 billion debt issue for RJR Nabisco Capital Corp. exemplified how our company concentrates its diverse areas of expertise on meeting client needs.

Merrill Lynch also is uniquely suited to serve international clients in advisory services, the equity and debt markets, foreign exchange, swaps and other derivatives that facilitate cross-border capital flows. For example, in 1991 we became the first non-German underwriter to lead-manage a bond issue for Daimler-Benz AG.

Merrill Lynch provides issuers with a unique balance of institutional and individual placement of securities. Distribution strategies are tailored to the needs of each issuer and to market demand. Merrill Lynch is also a leading trader of equity securities in the U.S. This strength translates into liquidity in the aftermarket for new issues and timely information for clients. In addition, Merrill Lynch remained a leader in trading in secondary corporate debt, government securities, municipals, financial futures and options.

Equity and Equity-Linked Financings

A number of important and lasting themes emerged in the equity markets last year. The much-predicted "re-equitization" of an over-leveraged world became reality in 1991. U.S. corporations raced to refinance and restructure operations, strengthen stretched balance sheets, improve credit ratings, and—in many cases—raise capital for expansion or acquisitions.

We brought to market 26 initial public offerings, including one of the year's largest, a $560 million issue for HealthTrust, Inc.–The Hospital Company. This complex IPO was part of a financial restructuring package that included a stock repurchase, an ESOP restructuring, a bond repurchase and a $1 billion bank credit facility.

In another ground-breaking transaction, the company lead-managed Duracell International Inc.'s $450 million IPO, which was named a "Deal of the Year" by *Investment Dealers' Digest* and *Institutional Investor*. This Duracell offering had one of the broadest distributions of any transaction in 1991, with orders from more than 1,000 institutions and 11,000 individual investors. In late 1991, Duracell came back to the capital markets to raise additional equity capital, and Merrill Lynch lead-managed a second offering of $345 million.

Merrill Lynch also lead-managed the first offering in more than three years for an equity-based Real Estate Investment Trust, Kimco Realty Corporation, an *Institutional Investor* "Deal of the Year."

The company maintained its No. 1 ranking in worldwide convertible debt securities, lead-managing issues totaling $3.8 billion, a 26% market share. Within this category, we continued to be the leader in zero-coupon convertible debt offerings with our LYONs product, whose market share is 77%. Liquid Yield Option Notes, or LYONs, are zero-coupon convertible securities created by Merrill Lynch seven years ago. LYONs are highly appealing to investors because they offer an opportunity to participate in the capital appreciation of the underlying equity while enjoying downside protection.

The company broke new ground in cross-border LYONs issuance during the year, with such offerings as: A $312 million (proceeds) offering for W.R. Grace & Co., the first LYONs issue with a tranche offered in Europe; and a $401 million (proceeds) offering for US WEST, Inc., which set

Our equity trading desk in London confers with our New York trading desk daily before the U.S. market opens.

As the global marketplace expands, we continue to be a leader in worldwide debt trading and underwriting.

a record for percentage of sales to foreign investors. In order to make the US WEST issue particularly appealing to international investors, Merrill Lynch gave certified non-U.S. investors the option of buying registered LYONs or bearer LYONs. The bearer securities proved to be highly popular internationally.

The US WEST LYONs, like the Eastman Kodak issue, featured an innovative early put structure aimed at attracting debt-oriented investors. Another important LYONs first was a $219 million (proceeds) offering by Freeport-McMoRan Copper & Gold Inc. that is convertible into either the company's stock or the cash value of gold, at the investor's option. A $516 million (proceeds) issue for AMR Corporation, completed during Operation Desert Storm, demonstrated our ability to bring issues to market in periods of volatility and uncertainty.

The $118 million (proceeds) LYONs issue for Rogers Communications Inc. was the first LYONs offering by a Canadian issuer. This also was the first offering under a new arrangement between the U.S. and Canada allowing transactions registered with the U.S. Securities and Exchange Commission to be issued directly from Canada.

Debt Financing

The decline in borrowing costs to some of the lowest levels since 1978 prompted many corporations to restructure their indebtedness to retire high-coupon debt and extend maturities. Clients turned to Merrill Lynch as the premier underwriter and agent of domestic and global debt issues and Medium-Term Notes, and as a leader in foreign exchange, swaps and derivative products.

Merrill Lynch set an investment grade corporate debt record by lead-managing issues totaling $47.6 billion, 66% more than our own previous industry record set in 1990. We also were the leading underwriter of new issues of debt with below-investment-grade ratings, with a 39% market share. Besides the $1.5 billion issue for RJR Nabisco Capital Corp., the company lead-managed issues for Owens-Illinois, Inc. and Chiquita Brands International, Inc. We underwrote an offering of $460 million in senior secured guaranteed notes for Rogers Cantel Mobile Inc., the largest below-investment-grade debt offering ever by a Canadian company.

In addition, we arranged significant private placements for Del Monte Corporation; for BFI Acquisition Corporation, which was created to complete the acquisition of Beatrice Foods Inc. and Palm Dairies Inc.; and others.

Preferred Stock Financing

Merrill Lynch is a leader in preferred stock issuance, too. A $1.1 billion General Motors Corporation fixed-rate perpetual preferred stock issue lead-managed by Merrill Lynch in December was a record non-convertible preferred offering. It provided retail investors with an attractive alternative to declining money fund investments while giving General Motors a new source of equity capital. Other domestic and global preferred stock capabilities are highlighted in the section describing services for financial institutions.

Swaps and Derivatives

Issuers as well as investors have increasingly complex needs in managing currency and

Financial Engineering for a Leader in Biotechnology

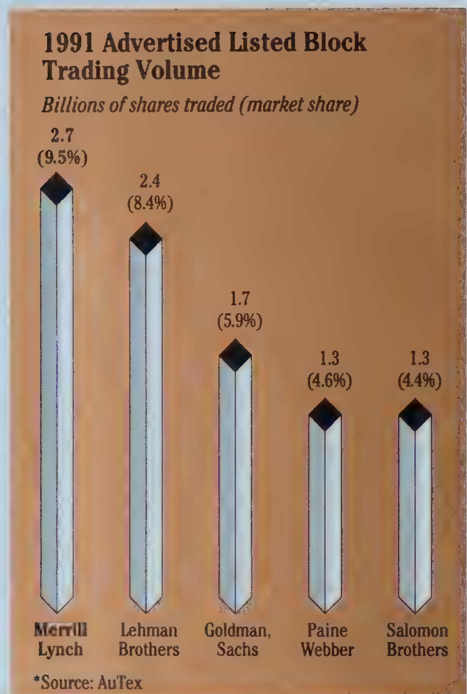
With an alpha interferon product like Intron A, Schering-Plough Corporation has few peers in the field of genetic engineering. But when the corporation needed high-quality financial engineering in order to achieve substantial cash flow savings, it turned to Merrill Lynch.

In connection with the exchange of 10 million common shares purchased on the open market by Merrill Lynch, our company structured an innovative offering of Liquid Yield Note Exchange℠ securities (LYNXs℠), consisting of new five-year, zero-coupon debt and five-year equity warrants exercisable into 8.5 million shares. Certain of these LYNXs were then placed in one of the largest 144A debt private placements ever, with approximately $580 million in proceeds.

This complex transaction allowed Schering-Plough to save dividend payments on the 10 million retired shares, while receiving a tax benefit for the accrued interest on the debt portion of the LYNXs. And if the company's common share price exceeds $98 in 1996, the proceeds of the warrant exercise would be sufficient to retire all of the LYNX securities' zero-coupon debt, with no additional cash from Schering-Plough. In that event, Schering-Plough would have received an aggregate five-year cash flow benefit of at least $200 million after tax.

interest rate risk, lowering borrowing costs and in hedging portfolios and changing asset mixes. Merrill Lynch continues to be a leader in developing, issuing and trading a full range of equity- and debt-linked derivative products, including futures, options, currency and commodity-linked products and swaps. Our Equity Derivatives Group, which was built on our expertise in both the equity and debt markets, recognizes the expanding number of derivative products that combine debt and equity characteristics.

In 1991, to further improve client service, the company created the ground-breaking Merrill Lynch Derivative Products, Inc. (MLDP), a Triple-A rated swaps subsidiary capitalized at $350 million. MLDP was immediately recognized as a major industry innovation. It already has significantly enhanced our position as a swap counterparty with highly rated international clients, supranationals, sovereign governments, government affiliates and banks that traditionally deal only with Triple-A rated counterparties.



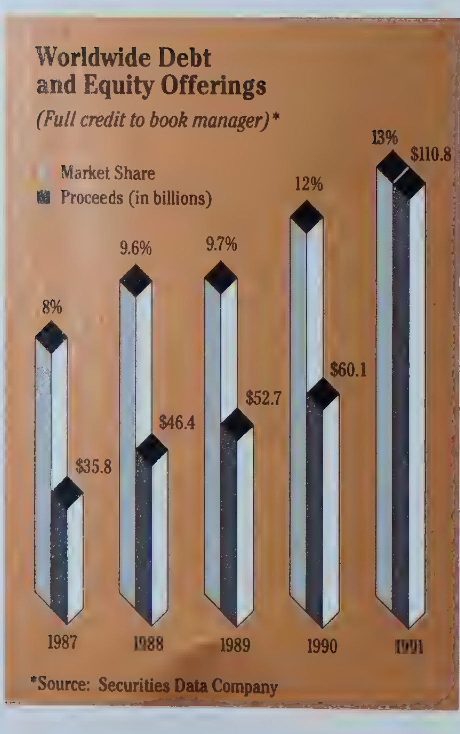
Money Markets, Mortgage-and Asset-Backed Securities

In the money markets, commercial paper outstanding issued through Merrill Lynch reached an all-time high of $100.1 billion. We introduced two key innovations in commercial bank funding–continuously offered Medium-Term Bank Notes and Short-Term Bank Notes; and we reopened the Variable Rate Note market with a $250 million perpetual issue for Crédit Lyonnais.

As No. 1 in the U.S. Medium-Term Note market, we were dealer for 80.2% of the programs instituted during the year. In the Euro-MTN market, where we also are No. 1, we were the dealer on 83.8% of the year's programs. 1991 programs included an ECU 2 billion ($2.3 billion) program for the Norwegian export financing institution, A/S Eksportfinans, and a $3 billion program for the Halifax Building Society in the United Kingdom. Merrill Lynch also remained the leader in MTNs indexed to currencies, commodities and various interest rate indices.

Merrill Lynch introduced a major innovation in the mortgage-backed securities market, the Zero-Interest Only strip, or Z-IO, which was used in a $200 million transaction for the Federal National Mortgage Association. We also launched PRESERV℠, a new derivative mortgage service that helps owners of servicing portfolios to hedge against prepayment risk.

In addition, Merrill Lynch is a leader in asset securitization. In 1991, we were lead or co-lead manager for 71 asset-backed securities issues totaling $33.4 billion, equal to a market share of 67%. Of the $19.4 billion in outstanding securities backed by home-equity loans, our company was lead manager for nearly two-thirds. For example, we lead-managed an offering for Beneficial Corporation that gave the company one of the lowest blended costs of any home-equity issue since Merrill Lynch created this market in 1988. In addition, we introduced innovative structures to satisfy clients' continuing concerns about credit enhancement.



Mergers and Acquisitions

As a leading advisor in mergers and acquisitions, globally and domestically, Merrill Lynch closed 82 transactions totaling $38.5 billion during 1991. For example, we advised GTE Corporation in its $10.2 billion acquisition of Contel Corporation, among the largest telecommunications mergers ever. We also advised Coca Cola Enterprises Inc. in its $1.5 billion acquisition of Johnson Coca-Cola Bottling Group, Inc.

During 1991, Merrill Lynch advised AB Electrolux in three separate divestitures with total transaction values of approximately $250 million. We also advised The Saitama Bank, Ltd. in its merger with The Kyowa Bank, Ltd., which created a bank with $200 billion in assets and a combined market value of $18 billion; and the State Bank of Victoria in its $1.6 billion sale to the Commonwealth Bank of Australia.

Services for Financial Institutions

Merrill Lynch continued to play an especially dominant role in the consolidation of the banking sector worldwide and was the leading advisor for financial institutions mergers and acquisitions. During the year, the company was lead advisor for 17 major transactions, with an aggregate value of more than $14 billion.

We advised Fleet/Norstar Financial Group, Inc. in its acquisition of Bank of New England Corporation, which created New England's largest banking company. Merrill Lynch also advised NationsBank Corporation (formerly NCNB Corporation) in its merger with C&S/Sovran Corporation to form the fourth largest U.S. banking company. The company also was a leader in advising clients in acquisitions of distressed financial institutions through the Resolution Trust Corporation and was selected by the Federal Deposit Insurance Corporation to lead-manage a $174 million common stock offering for Continental Bank Corporation, which represented the FDIC's remaining stake in the institution.

Merrill Lynch continued to dominate the market for domestic financial institutions' straight preferred securities, lead managing 14 issues totaling $2.6 billion. During 1991, the company developed an indirect preferred stock financing structure suitable for continental European banks, which previously could not issue shares directly into the U.S. market. Besides being cost effective for issuers, these shares are useful to a broad range of investors in the U.S. and elsewhere because of the absence of withholding taxes on dividends.

We lead-managed three issues designed around this structure–a $345 million issue for Banco Bilbao Vizcaya, S.A. of Spain; a $230 million issue for Banco de Santander of Spain; and a $150 million private placement for Banque Indosuez of France. We lead-managed a $281 million fixed-rate perpetual preferred issue for BankAmerica Corporation, one of the largest non-convertible preferred offerings on behalf of a U.S. bank.

After a six-month hiatus in the international bank equity market, Merrill Lynch reopened it with an innovative, equity-linked security–the mandatory convertible debenture. Two offerings–an ECU 70 million issue for Spanish Banco Central, now Banco Central e Hispano Americano, S.A., and an ECU 80 million issue for Banco Español de Crédito, S.A., or Banesto–met with strong investor demand, while improving the two issuers' capital ratios by qualifying as Tier One capital.

We also were active in offerings for closed-end funds. Merrill Lynch was the No.1 lead manager of closed-end fund preferred stock issues, and our innovative $435 million common share offering for The Jundt Growth Fund, Inc. was one of the largest U.S. equity closed-end fund issues ever.

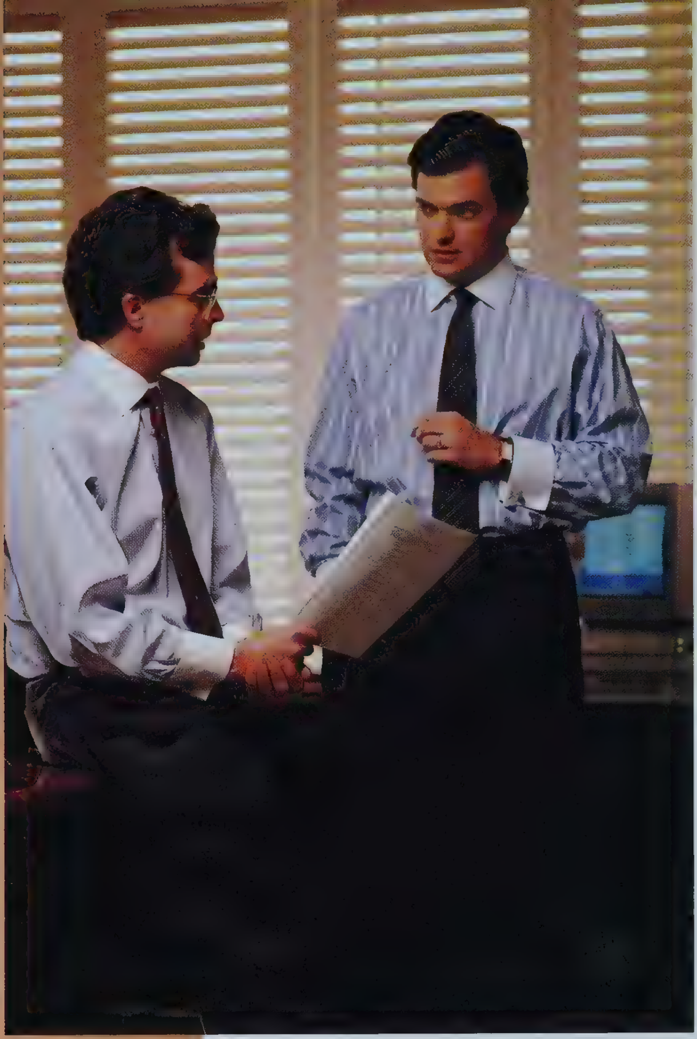
Corporate Benefit Programs and 401(k) Plans

With our innovative investment strategies, record-keeping systems, corporate trustee and comprehensive employee communication programs, Merrill Lynch is a premier provider of corporate savings programs, which offer millions of working Americans an opportunity to build assets for retirement.

Merrill Lynch has been active in designing, implementing and servicing employee benefits programs for more than two decades, a period when these programs have grown to almost 39%

Since 1987, our worldwide share of lead-managed equity and equity-related originations has more than doubled.

OUR GOAL IS TO FULLY UNDERSTAND THE NEEDS OF EACH INSTITUTIONAL AND CORPORATE INVESTOR AND TO USE OUR RESOURCES TO DEVELOP CUSTOM-TAILORED SOLUTIONS.



Our broad capabilities in derivatives cut across product groups, drawing on Merrill Lynch's expertise in all aspects of the global capital markets.

of the corporate payroll. As a result, many corporations are now undertaking systematic reviews of the benefits packages they offer.

We have responded with flexibility and innovation. The development and support of 401(k) defined contribution plans, Employee Stock Purchase Plans, broad-based Employee Stock Option Plans and after-tax Corporate Savings programs draws upon the full breadth of our financial services capabilities.

In addition, Merrill Lynch is pioneering a new trend in employee benefits–plans that grant stock options to corporate employees. In 1991, we completed development of the industry's only service product that provides comprehensive record-keeping, brokerage and administrative support services for employee stock option plans.

This system now supports more than 300,000 employee stock option plan participants in more than 45 countries, representing more than 90% of all participants in broad-based employee stock option plans. During 1991, we signed a contract with E.I. du Pont de Nemours and Company to provide Employee Stock Option Plan services to more than 140,000 employees worldwide. We were sole financial advisor in creating the first international Employee Stock Ownership Plan for Volvo North America Corporation.

USING THE INNOVATIVE GLOBAL EQUITY PRICE APPRECIATION SERVICE (GEPAS), INVESTORS CAN EVALUATE STOCKS TRADED IN ALL MAJOR WORLD MARKETS ON A COMMON CURRENCY BASIS AND IN COMBINATION WITH COUNTRY AND INDUSTRY EXPECTATIONS.

Investment Services for Large Institutions and Corporations

Merrill Lynch's unmatched strengths in global capital markets enable us to deliver the highest level of service to our investing clients, giving them the information, tools and execution they need to maximize investment performance in today's challenging environment.

Each institutional and corporate investor faces unique challenges based on its individual objectives, investment philosophy and industry environment. At Merrill Lynch, our goal is to fully understand each client's needs and to use our resources to develop custom-tailored solutions.

Our company provides services to the full range of institutional investors, from investment advisory firms and mutual funds, insurance companies, banks and bank trusts, as well as corporations, states and municipalities and their pension funds.

Merrill Lynch offers these investors highly individualized services. For example, in 1991, we responded to changing needs in the insurance industry by devoting a team of professionals with various specialties to reviewing and analyzing the industry environment, including business, regulatory and tax developments. Our team provided insurance clients with specific recommendations for modifying their investment strategies.

With our leading positions in both fixed-income and equity securities, as well as in the rapidly expanding derivative and swaps markets, we are ideally positioned to serve large institutional and corporate investors globally.

The dynamic investment environment of 1991 presented new challenges and opportunities for clients, and we responded to their needs in both the fixed-income and equity markets. For instance, in the fixed-income markets we pioneered the development of cross-currency short-term notes to enhance yields and returns for short-term investors facing continually declining U.S. dollar yields.

In equities, where many investors sought to protect the appreciation they had realized from the market's dramatic upturn, our innovations in derivatives enabled them to lock in gains while

continuing to participate in some portion of the underlying securities' potential appreciation.

As an integral component of our focus on client service, we actively monitor our performance among our institutional clients through a combination of independent, third-party market research studies and in-depth client interviews conducted by our senior sales management. In 1991, as in previous years, clients continued to give Merrill Lynch high marks for the consistent quality of our overall service.

But Merrill Lynch's strong reputation for client service also reflects our commitment to putting client interests first. Merrill Lynch's trading activities are primarily driven by client order flow.

Superior Global Execution and Trading

We are consistently recognized as a leader in providing execution and overall brokerage services, as shown by our dominance in listed equity block trading and our leadership in trading over-the-counter securities, convertibles, secondary corporate debt, government securities, municipals, financial futures and options.

To facilitate the global trading needs of institutional and corporate investors, Merrill Lynch offers 24-hour trading of many major equity and fixed-income securities. In addition, the firm provides access to foreign currency execution services through toll-free access to our trading desks around the world.

By combining our foreign exchange capabilities with our expertise in debt securities, we created the FxB option, which combines elements of bonds and currency options in a sophisticated risk-controlled vehicle that benefits fixed-income investors seeking higher yields and foreign currency exposure.

Superior Global Research

In the emerging global marketplace, superior research in world markets will be key to maximizing investment performance. Our global research team, with analysts in all major markets, is among Wall Street's largest. In both internal and external surveys, buyside analysts and portfolio managers give our analysts top marks for timeliness, precision and depth.

To help clients take full advantage of new opportunities in the global markets, Merrill Lynch offers top-ranked global asset allocation models, market analysis, quantitative analytics and fundamental equity and fixed-income research. In 1991, we introduced the Merrill Lynch Private Network, an electronic information service that brings our fundamental research reports and global economic information to institutional clients via conventional personal computers.

A second major innovation was our Global Equity Price Appreciation Service (GEPAS), a unique research tool that allows investors to evaluate the appreciation potential of stocks traded in all major world markets on a common currency basis and in combination with their own country and industry expectations, or the weightings of Merrill Lynch's equity strategists. By using GEPAS in conjunction with our timely economic, industry and company reports, clients can invest on a truly global basis. In addition, by using our global asset allocation strategy, they can maximize returns while minimizing risks.

Professional Securities Services

Through Broadcort Capital Corp. and Wagner Stott Clearing Corp., Merrill Lynch provides wholesale brokerage services to other broker/dealers, market makers, specialists, futures commission merchants and professional traders. For this client group, we offer execution services for all investment products on all major exchanges and over-the-counter markets, clearance and settlement, financing and bookkeeping.

We also provide stock loan and Prime Broker services on a global, 24-hour basis to institutions that use these services as an integral part of their investment strategy. In addition, The Citation Group serves our institutional client base with third-party payment for financial services, emphasizing and promoting Merrill Lynch non-research proprietary products.

During the year, Merrill Lynch Specialists Inc. acquired the business of Lasker, Stone & Stern, which acts as specialist in the shares of The Coca-Cola Company, RJR Nabisco Holdings Corp., Johnson & Johnson and about 40 other stocks. This brought the total number of equities in which we act as specialists on the New York Stock Exchange to approximately 100.

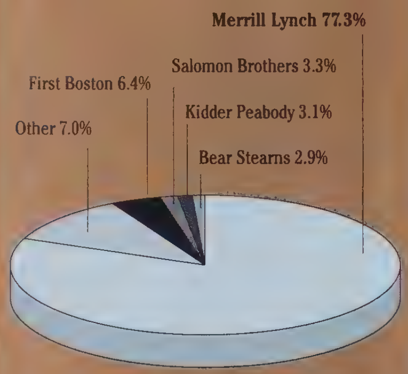
Through Financial Data Services, Inc., one of the largest transfer agencies in the industry, we also provide comprehensive, integrated services that allow mutual fund groups to remain on the competitive edge. FDS currently serves over six million shareholders with more than $100 billion in invested assets.

Merrill Lynch Capital Partners

Merrill Lynch Capital Partners, Inc. manages approximately $2 billion of funds committed to equity investments in leveraged buyouts on behalf of 106 investors worldwide. During 1991, two new investments were made: the purchase of Beatrice Foods Inc. and Palm Dairies Inc. for $420 million. In addition, we undertook a number of assignments to assist our existing portfolio companies in achieving their objectives, including a public offering of AnnTaylor, Inc., and the divestitures of Purity Supreme, Inc. and Li'l Peach Corp. for Supermarkets General Holdings Corporation.

Merrill Lynch Market Share Worldwide Zero Coupon Convertible Debt Issued Since 1985

Total proceeds=$12.1 billion



*Source: Securities Data Company

Market Highlights:

- **Achieved #1 rank for a fourth straight year in U.S. debt and equity underwriting while increasing our first-place share worldwide.**
- **Ranked #1 in the *Euromoney* poll as borrowers' favorite capital raiser in the international markets.**
- **Continued to dominate listed equity block trading, with a 9.5% market share.**
- **Remained a leading advisor in mergers and acquisitions globally and domestically, with an especially dominant role in the consolidation of the banking industry worldwide.**
- **Maintained our commitment to serving the full range of institutional and corporate investors with superior execution, research and product innovation.**

Sovereign Governments

The capital needs of sovereign governments and supranational organizations worldwide continue to grow, as governments everywhere position their economies to compete in a new environment of liberalized cross-border trade and capital flows. With our strengths in global and domestic capital markets, Merrill Lynch is ideally suited to meet these client needs for financial advisory and underwriting services–to help them in obtaining the lowest-cost capital and in privatizing their state-owned industries.

Privatizations

Heightened global competition continues to accelerate the sweep toward privatization of government-owned industries in many parts of the world. Merrill Lynch remains a leader in providing advisory and investment banking services for privatizations worldwide. In fact, we are among the few firms with a leadership position in all the services and market segments needed to evaluate, plan and execute successful privatizations in all regions of the world.

Our broad range of skills includes:

- Financial advisory expertise
- Mergers and acquisitions capability
- Restructuring and advisory experience
- Equity and debt trading, underwriting, and distribution capability
- Broad and respected global research.

In 1991, Merrill Lynch was a global coordinator and lead-manager in the U.S. for Telecom Corp. of New Zealand's ground-breaking $818 million initial public offering. The company also acted as international coordinator for the highly successful $848 million privatization of Telefónica de Argentina S.A. A total of 30% of the company's shares were sold in Argentina's first privatization carried out through an international stock offering.

Merrill Lynch also advised the government of Israel in its largest transaction ever, the privatization of the $16 billion bank and industrial holding company, IDB Bankholding Corporation, Ltd.

Our company is positioning itself to play an important role in the newly emerging markets of Central and Eastern Europe, where our experience and record of innovation are making important contributions to the development of new free market economies and to new capital market structures. For example, Merrill Lynch was appointed to advise the Treuhandanstalt–the holding company for all businesses formerly owned by the East German government–on the sale of Mitteldeutsche Wasser und Umwelttechnik Ag Halle (UTAG), its largest water supply and sewage treatment engineering company.

Our involvement in Hungary's privatization program reflects that country's importance to American and European corporations as a cornerstone for economic development in Central Europe. Merrill Lynch has been advisor to the government's State Property Agency in its program to privatize Hungary's largest food processing company, as well as its four tobacco companies.

Raising Capital

The company continued to be the leader in the global debt markets for sovereign and sovereign affiliates, lead-managing a number of the year's most significant transactions. These included a $2 billion Eurobond issue for the Republic of Italy, the largest-ever straight Eurodollar bond offering, which was *International Financing Review*'s "Eurodollar Deal of the Year;" and a $1.5 billion global bond offering for the International Bank for Reconstruction and Development.

During the year, Merrill Lynch introduced the first global Canadian-dollar bond offering to the marketplace. *Euroweek* named the C$1.25 billion initial offering by Ontario Hydro its "Deal of the Year." Merrill Lynch managed a subsequent C$1 billion offering by Ontario Hydro and two C$1.1 billion offerings for Hydro Quebec. We also managed a C$3.99 billion zero-coupon global issue for Ontario Hydro, the first global offering of Canadian-dollar zero-coupon debt; and a C$750 million Euro-Canadian bond offering

Bringing a Kiwi to Market

Last July's global equity offering by Telecom Corporation of New Zealand Limited was a landmark not only for New Zealand, but for the global capital markets as well. Merrill Lynch acted as a global coordinator and lead manager in the U.S. for a worldwide transaction that depended heavily on the U.S. and New Zealand markets acting in concert.

In 1990, Telecom was acquired from the New Zealand government for $2.46 billion by two U.S. companies–Ameritech Corporation and Bell Atlantic Corporation. As part of the purchase agreement, the two U.S. companies had to reduce their aggregate ownership substantially within three years–and a substantial part of any equity offering had to take place in the New Zealand market.

To accomplish this transaction, Merrill Lynch investment bankers, equity traders and securities analysts in New York, San Francisco, Australia and London had to design a structure to accommodate two entirely different offering systems–one in New Zealand and one in the U.S. In order to make it all work, the New Zealand exchange had to open at 1.30 a.m. local time, to coincide with the opening of the New York Stock Exchange.

The Telecom offering was so successful that it was increased in size by 50% during the marketing period. In the end, Ameritech and Bell Atlantic sold over 30% of Telecom in the U.S., New Zealand and other international capital markets, raising $818 million in aggregate.

As a leader in global debt financing, Merrill Lynch was asked by The Korea Development Bank to manage its $250 million Yankee bond issue.

for the Province of Ontario, the largest fixed-rate, Canadian-dollar Euro-transaction ever. In addition, we managed a $900 million Yankee bond offering by Hydro Quebec that was the largest Yankee debt offering ever by a Canadian issuer.

The company lead-managed a $500 million Eurobond issue for The Japan Development Bank, the largest-ever fixed-rate offering by a Japanese issuer, as well as a $200 million two-year note issue for Finnish Export Credit, for whom we also established a $1.5 billion Medium-Term Note program.

The world's newly emerging economies are of special importance to Merrill Lynch. In 1991 alone, we managed equity offerings for companies in such diverse markets as Korea, Indonesia, Mexico, Argentina and the Philippines. These included some of the year's most significant issues, such as the Telefónica de Argentina offering, and the co-managed Telefónos de México and Manila Electric Company issues.

Early in 1991, we preceded a wave of new issues by Latin American borrowers with two bond issues for the United Mexican States—one for $40 million and the other for $150 million. Both were amortizing issues with ten-year final maturities, making them at the time the longest-dated Latin American issues since Latin American borrowers resumed issuing bonds in the international markets in 1989. We also were sole underwriter for a $200 million debt offering for Telecomunicações Brasileiras S.A.-Telebrás, the primary supplier of telecommunications services in Brazil, as well as for a $50 million Eurobond issue for IBM Argentina. IBM Argentina became the first multinational in Argentina to access the international bond markets.

In 1991, Merrill Lynch continued to work with The Korea Development Bank (KDB), the leading bank in providing financing for growth and development in the Republic of Korea, by enhancing its presence in the U.S. capital markets. In February, we acted as arranger in KDB's $500 million Medium-Term Note program, the first MTN program issued by a Korean institution. In June, we were lead manager for a highly successful $250 million KDB Yankee bond issue.

MUNICIPAL FINANCE

As a leader in municipal finance, with an individual and institutional investor base that has a strong need for tax-saving municipal securities, Merrill Lynch is helping states, municipalities and their political subdivisions solve their most challenging funding needs. During the year, Merrill Lynch lead-managed 339 new municipal issues totaling $16.3 billion, for a nearly 10% market share.

To give tax-exempt borrowers greater access to the capital markets at lower cost, Merrill Lynch introduced Floating Auction Tax-Exempts℠/Residual Interest Tax-Exempt℠ Securities, or FLOAT℠/RITES℠. These securities, by appealing to both short- and long-term investors, combine to produce an all-in fixed rate of 10 to 30 basis points below traditional long-term fixed-rate alternatives.

FLOAT/RITES proved their usefulness in a $107 million tax-exempt bond issue for Inova Health Systems, a Fairfax, Virginia-based multi-hospital system, by reducing long-term fixed-interest costs. This Merrill Lynch senior-managed financing resulted in $2.3 million of present value savings for Inova and $6.9 million of aggregate savings.

We executed a $230 million interest rate swap for the District of Columbia, the largest primary market swap executed on behalf of a city and the first swap for the District of Columbia. This transaction reduced the District's funding costs by over $15 million on a present value basis as compared with conventional bond financings.

The company senior-managed a $1.6 billion long-term tax-exempt issue for the New Jersey Turnpike Authority, the second largest financing of its kind in history. In conjunction with the issue, we launched the first new issues of Treasury Investment Growth Receipts℠ (TIGRs®) since 1986. They enabled the Authority to save a significant amount on the reinvestment of its bond proceeds.

The company also lead-managed a $150.5 million issue of Mortgage Pass-through Certificates. These senior/subordinated certificate structures, collectively known as Banco Santander Puerto Rico 1991 Grantor Trusts 1, 2 and 3, securitized, for the first time, first lien whole mortgage loans secured by residential properties in Puerto Rico. In addition, these issues were the first multi-tranche mortgage-backed securities sold in the Commonwealth of Puerto Rico.

Our municipal clients also benefit from a number of unique services. For example, our Municipal Arbitrage Rebate Program (MARP) provides investment services, tracking, arbitrage, tax and reporting services for proceeds from tax-exempt municipal bond issues. This program gives municipalities a highly efficient method for temporarily investing bond proceeds, while eliminating the need for burdensome internal record keeping and rebate calculations. In addition, municipal clients have access to the Merrill Lynch Fund for Institutions series—three separate funds created by Merrill Lynch Asset Management specifically for institutions.

Financial Review

HIGHLIGHTS

- Record net earnings of $696 million increased 263% above 1990 net earnings of $192 million and 50% above the previous earnings record set in 1988.
- Earnings per common share for 1991 of $6.02 primary compared with $1.59 in 1990.
- Net revenues reached a record $7.3 billion in 1991, 25% above those for 1990.
- Non-interest expenses excluding those expenses tied to business volume——compensation & benefits and brokerage, clearing and exchange fees——declined 3% from 1990.
- Pretax earnings reached a record $1.0 billion for 1991, compared with $282 million for 1990.
- 1991 results represent a 20.8% return on average common stockholders' equity compared with 5.8% for 1990.
- Stockholders' equity rose 18% to $3.8 billion at year-end 1991.
- Book value per common share of $35.76 for 1991 increased 19% from 1990 year-end.

TABLE OF CONTENTS

SELECTED FINANCIAL DATA

(Dollars in Thousands, Except Per Share Amounts)					*Year Ended Last Friday in December*
	1991	**1990**	**1989**	**1988**	**1987**
	(52 Weeks)	*(52 Weeks)*	*(52 Weeks)*	*(53 Weeks)*	*(52 Weeks)*
Operating Results					
Total Revenues	$ 12,362,845	$ 11,150,816	$ 11,275,951	$ 9,694,980	$ 9,072,435
Interest Expense	5,106,344	5,363,900	5,371,028	3,768,203	3,069,978
Net Revenues	7,256,501	5,786,916	5,904,923	5,926,777	6,002,457
Non-Interest Expenses	6,239,083	5,504,588	6,063,309	5,315,521	5,638,616
Earnings (Loss) Before Income Taxes, Discontinued Operations and Cumulative Effect of a Change in Accounting for Income Taxes	1,017,418	282,328	(158,386)	611,256	363,841
Income Tax Expense	321,301	90,472	58,980	165,361	33,915
Earnings (Loss) Before Discontinued Operations and Cumulative Effect of a Change in Accounting for Income Taxes	$ 696,117	$ 191,856	$ (217,366)	$ 445,895	$ 329,926
Net Earnings (Loss)	$ 696,117	$ 191,856	$ (213,385)	$ 463,182	$ 335,108
Net Earnings (Loss) Applicable to Common Stockholders	$ 678,392	$ 167,932	$ (235,401)	$ 444,909	$ 333,606
Financial Position					
Total Assets	$ 86,259,343	$ 68,129,527	$ 63,942,263	$ 64,402,655	$ 55,192,646
Short-Term Borrowings	$ 38,697,544	$ 27,340,915	$ 28,558,220	$ 34,390,484	$ 29,400,904
Long-Term Borrowings	$ 7,964,424	$ 6,341,559	$ 6,897,109	$ 6,283,349	$ 5,261,207
Total Stockholders' Equity	$ 3,818,088	$ 3,225,430	$ 3,151,343	$ 3,484,178	$ 3,275,425
Common Share Data					
Primary:					
Earnings (Loss) Before Discontinued Operations and Cumulative Effect of a Change in Accounting for Income Taxes	$ 6.02	$ 1.59	$ (2.35)	$ 4.12	$ 3.02
Net Earnings (Loss)	$ 6.02	$ 1.59	$ (2.31)	$ 4.29	$ 3.07
Fully Diluted:					
Earnings (Loss) Before Discontinued Operations and Cumulative Effect of a Change in Accounting for Income Taxes	$ 5.90	$ 1.59	$ (2.35)	$ 4.04	$ 2.96
Net Earnings (Loss)	$ 5.90	$ 1.59	$ (2.31)	$ 4.21	$ 3.03
Book Value	$ 35.76	$ 29.97	$ 28.52	$ 32.43	$ 29.19
Total Taxes *(a)*	$ 4.55	$ 2.46	$ 2.35	$ 3.34	$ 1.91
Dividends Paid	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ .95
Average Shares Outstanding:					
Primary	112,675,000	105,526,000	101,859,000	103,746,000	108,621,000
Fully Diluted	114,958,000	105,526,000	101,859,000	108,890,000	113,768,000
Shares Outstanding at Year-End *(b)*	102,721,818	99,834,635	102,691,377	98,686,499	102,373,076
Financial Ratios					
Pretax Margin *(d)*	14.0%	4.9%	*(c)*	10.3%	6.1%
Profit Margin *(e)*	9.6%	3.3%	*(c)*	7.5%	5.5%
Common Dividend Payout Ratio	15.2%	61.8%	*(c)*	23.2%	31.1%
Return on Average Assets	0.8%	0.3%	*(c)*	0.8%	0.6%
Return on Average Common Stockholders' Equity	20.8%	5.8%	*(c)*	14.8%	11.3%
Leverage	24.1x	22.9x	20.2x	18.2x	20.1x
Other Statistics					
Number of Full-Time Employees *(f)*	38,300	39,000	41,200	41,800	46,100
Number of Financial Consultants and Account Executives	12,100	11,800	12,300	12,600	13,300
Number of Sales Offices:					
Domestic	460	460	465	470	500
International	50	50	55	80	80
Domestic Assets Under Management	$123,000,000	$110,000,000	$ 98,000,000	$ 78,000,000	$ 77,000,000
Assets in Domestic Private Client Accounts	$417,000,000	$356,000,000	$334,000,000	$276,000,000	$236,000,000

(a) Excludes the 1987 charge for the cumulative effect of a change in accounting for income taxes. Includes the aggregate income taxes associated with the discontinued operations of Fine Homes International, L.P.

(b) Does not include 6,818,410, 8,035,984 and 9,326,731 unallocated shares held in the Employee Stock Ownership Plan at year-end 1991, 1990 and 1989, respectively, which are not considered outstanding for accounting purposes.

(c) As a result of the net loss in 1989, this ratio is not meaningful.

(d) Earnings Before Income Taxes, Discontinued Operations and Cumulative Effect of a Change in Accounting for Income Taxes to Net Revenues.

(e) Earnings Before Discontinued Operations and Cumulative Effect of a Change in Accounting for Income Taxes to Net Revenues.

(f) Excludes employees of Fine Homes International, L.P. in 1988 and 1987.

Management's Discussion of Financial Responsibility

Management of Merrill Lynch & Co., Inc. is responsible for preparing the financial statements and related notes contained in the Annual Report in accordance with generally accepted accounting principles. The consolidated financial statements and related notes include amounts based upon our best estimates and judgments. Other financial data incorporated in the Annual Report are consistent with the financial statements.

Management recognizes the importance of safeguarding the Corporation's integrity and understanding the risks of the business. Therefore, Management devotes considerable attention to promoting the highest standards of ethical conduct, exercising responsible stewardship over the Corporation's assets, and presenting fair financial statements.

To achieve these objectives, Management has designed a framework of checks and balances including policies, procedures and organizational structure, all overseen by a predominantly independent Board of Directors.

Several committees of the Board actively participate in setting policy and monitoring controls. The Audit Committee, consisting entirely of independent directors, examines the Corporation's compliance with acceptable business standards and ethics. It also reviews the financial reporting process and recommends to the Board of Directors the appointment of the Corporation's independent auditors. The Management Development and Compensation Committee, also composed entirely of independent directors, oversees procedures for developing and assessing the Corporation's employees with an emphasis on ethical business behavior. The Finance Committee of three independent directors, plus the Chairman and President of the Corporation, reviews all significant financial issues and recommends overall policies regarding risk and funding requirements.

Further oversight is provided by Corporate units such as Internal Audit, Credit, Risk Management, Legal and Compliance. Internal Audit reports directly to the Chairman of the Audit Committee and provides independent appraisal of the Corporation's internal accounting controls and its compliance with established policies and procedures.

Corporate Credit monitors credit exposure while cooperating with the business groups in controlling overall credit risk.

The Risk Management group establishes parameters for market risk assumed by the Corporation. Systems and procedures have been installed to monitor positions and risks. In addition, Risk Management has clear authority to enforce trading limits.

Legal and Compliance serves in a counseling and advisory role to Management with respect to developing Corporate policies and monitoring compliance with those policies and with applicable laws and industry regulations.

Further, the Corporation's independent auditors, Deloitte & Touche, perform annual audits in accordance with generally accepted auditing standards, which include a review of the internal accounting control system.

The Corporation continually reviews its framework of controls to take account of changing circumstances and makes modifications when required and cost-effective.

William A. Schreyer

William A. Schreyer
Chairman and
Chief Executive Officer

Daniel P. Tully

Daniel P. Tully
President and
Chief Operating Officer

Herbert M. Allison

Herbert M. Allison, Jr.
Executive Vice President
Finance & Administration,
Chief Financial Officer

Deloitte & Touche

Independent Auditors' Report

The Directors and Stockholders of Merrill Lynch & Co., Inc.:

We have audited the consolidated balance sheet of Merrill Lynch & Co., Inc. and subsidiaries as of December 27, 1991 and December 28, 1990 and the related statements of consolidated earnings, changes in consolidated stockholders' equity and consolidated cash flows for each of the three years in the period ended December 27, 1991. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements appearing on pages 37 through 52 present fairly, in all material respects, the financial position of the Corporation and subsidiaries at December 27, 1991 and December 28, 1990, and the results of their operations and their cash flows for each of the three years in the period ended December 27, 1991 in conformity with generally accepted accounting principles.

Deloitte & Touche

New York, New York
February 24, 1992

BUSINESS ENVIRONMENT

Merrill Lynch & Co., Inc. and its subsidiaries (collectively referred to as the "Corporation") conduct their businesses in highly volatile markets. Consequently, the Corporation's results of operations can be affected by many factors, including general market conditions, the liquidity of secondary markets, the level and volatility of interest rates, currency and security valuations, competitive conditions, and the size, number and timing of transactions. In periods of unfavorable market activity, profitability can be adversely affected because certain expenses remain relatively fixed. As a result, revenues and net earnings can vary significantly from year to year, and from quarter to quarter.

The depressed market environment that characterized much of 1990 underwent a dramatic turnaround early in 1991, initiated by the military success in the Persian Gulf. Despite the sluggish economy, the markets continued to flourish throughout 1991, as the Federal Reserve repeatedly acted to ease interest rates. Rising stock prices and lower interest rates encouraged corporations to obtain equity financing or a lower cost of funds through debt refinancing. The aggregate volume of domestic stock and bond issues reached a record level in 1991.

The heightened level of market activity, sustained throughout 1991, contributed to an industry-wide surge in underwriting and commission revenues, as well as a modest recovery in the high-yield bond market. Merger and acquisition activity, however, remained depressed as the number of transactions fell for the third consecutive year. The Corporation does not anticipate full recovery of this market in the near future.

Despite a robust operating environment in 1991, the Corporation continued to evaluate its costs, focus its resources on those businesses producing the greatest return on equity, and manage its risk and liquidity to protect its capital base.

RESULTS OF OPERATIONS

Favorable market conditions coupled with strict cost control, strong market share and careful risk management resulted in record net earnings in 1991. Net earnings of $696 million, or $6.02 per common share primary ($5.90 fully diluted), in 1991 advanced 263% over net earnings of $192 million, or $1.59 per common share, for 1990. The Corporation recorded a net loss of $213 million, or $2.31 per common share, for 1989.

The 1989 results included an after-tax charge of $395 million ($470 million pretax) or $3.85 per common share relating to the restructuring of operations. The restructuring included the divestiture of certain non-strategic product lines and business activities, consolidation and relocation of selected retail and support facilities, and downsizing of certain other operations.

Revenues, net of interest expense ("Net Revenues") reached a record $7.3 billion in 1991, a 25% and 23% increase from that reported for 1990 and 1989, respectively. Revenue growth was broad-based, with virtually all operating revenue categories improving significantly over the two prior years.

Non-interest expenses of $6.2 billion increased 13% and 3%, respectively, from those reported for 1990 and 1989, the earlier year including the $470 million pretax restructuring charge. When expenses closely tied to business volume – i.e., compensation and benefits and brokerage, clearing and exchange fees – are excluded, non-interest expenses declined 3% and 7% when compared with 1990 and 1989, respectively (excluding the 1989 restructuring charge). These reductions resulted from the Corporation's continued efforts to control expenses and streamline operations.

Record pretax earnings of $1.0 billion in 1991 compared with pretax earnings of $282 million in 1990 and a pretax loss from continuing operations of $158 million in 1989. Pretax margin climbed to 14% in 1991 from 4.9% in 1990. The incremental pretax margin on the increase in net revenues in 1991 was 50%. The Corporation's return on average common stockholders' equity increased to 20.8% in 1991 compared with 5.8% for the year earlier.

COMMISSIONS

Commission revenues increased 22% in 1991, reflecting growth in sales of listed securities and mutual funds.

Commissions from listed securities advanced 27% from 1990 as a result of a significantly higher level of investor participation in the equity markets. The New York Stock Exchange ("NYSE") average daily trading volume increased 14% from 1990, while the Dow Jones Industrial Average ("DJIA"), a measure of share prices, averaged 2,926, exceeding by 10% the 1990 close. At 10.6%, the Corporation's market share of publicly listed equity volume in 1991 was virtually unchanged from the year earlier.

Mutual fund commissions increased 33% over 1990, primarily due to growth in sales of front-load mutual funds as individual investors shifted from certificates of deposit and other low interest-yielding investments to equity and fixed-income funds yielding higher returns. Additionally, as a result of strong prior-years' sales, a higher level of distribution fees was earned on rear-load mutual funds.

Commission revenues for 1990 declined 4% from the 1989 level as lower commissions from listed securities – the result of an unfavorable mix of market share, share price and trading volume – were partially offset by growth in mutual fund sales.

At year-end 1991, the Corporation had approximately 12,100 Financial Consultants and Account Executives compared with 11,800 at year-end 1990 and 12,300 at year-end 1989.

INTEREST AND DIVIDENDS

Interest and dividend revenues and interest expense, which includes payments in lieu of dividends, declined 3% and 5%, respectively, from 1990. These declines are due primarily to lower interest rates, partially offset by a higher level of interest-earning assets and interest-bearing liabilities.

Net interest and dividend profit of $655 million increased 13% from the prior year, largely as a result of the interest rate environment. The interest spread on interest-earning assets match-funded by interest-bearing liabilities widened during 1991 as the cost of short-term funding declined more than the yields on longer-term fixed-income and equity inventories. However, interest profit was negatively impacted by the Corporation's decision to shorten the duration of its insurance investment portfolio.

Net interest and dividend profit in 1990 was 19% higher than in 1989, as the interest spread earned on the Corporation's insurance business grew considerably through the acquisition of Tandem Financial Group, Inc. and sale of proprietary insurance products.

Decisions that result in the recognition of principal transactions revenues have a direct impact on interest and dividend profit. Factors such as potential principal transaction gains/losses and interest revenues/expenses resulting from hedging or financing must be considered in the aggregate when determining the profitability of these transactions. Realized and unrealized gains or losses on inventory positions are reflected in principal transactions while the net carrying cost of this inventory and the results from certain hedging activities are reflected in interest expense.

PRINCIPAL TRANSACTIONS

The Corporation attained record principal transactions revenues in 1991, 27% above the previous record set in 1988, and 31% above those reported for 1990.

Fixed-income and foreign exchange trading revenues, in the aggregate, increased 23% over 1990 on the strength of secondary trading revenues in the high-yield markets and substantially higher revenues from derivative products, including swaps, and corporate bond trading. Revenues from high-yield bond trading, which benefited from a recovery in the high-yield markets in 1991, compared with losses in the prior year. The increase in revenues from derivative products is attributable to overall market growth and increased volume, as investors took advantage of the Corporation's financial engineering capabilities. Higher revenues from corporate bond trading are the result of increased investor trading volume and favorable positioning relative to interest and credit risk. The coordination of fixed-income trading, underwriting and research and marketing, together with risk management, also contributed to these results.

Corporate equities trading revenues surged 64% from 1990 due to strength in the over-the-counter markets, as well as in international equities trading and convertible arbitrage activities. Over-the-counter trading revenues, which are directly related to order flow, were bolstered by a 24% increase in the NASDAQ average daily volume. Revenues from international equities trading in 1991 compare with losses in the prior year that were the result of adverse conditions in the Tokyo equity markets. Favorable market positioning and higher volume contributed to robust revenues from convertible arbitrage activities.

In 1990, principal transactions revenues were 16% higher than in 1989, as fixed-income and foreign exchange trading revenues, in aggregate, advanced 33%, partially offset by a 21% decline in revenues from corporate equities.

INVESTMENT BANKING

Investment banking revenues advanced 48% from 1990, as strong revenues from underwriting activities were partially offset by lower strategic services revenues.

Underwriting revenues increased 88% from 1990, due principally to revenues earned from the underwriting of corporate equities. In a declining interest rate environment, prompted by Federal Reserve interest rate easing, corporate equity issuers capitalized on the increased investor demand for equities that prevailed for much of 1991. Underwriting revenues from corporate debt and mortgage and asset-backed securities also grew substantially from 1990, as issuers sought to finance at lower interest rates and investors pursued the higher yields of collateralized obligations.

The Corporation maintained its position as the top underwriter of global and U.S. debt and equity securities for 1991, serving as lead underwriter for approximately $111 billion of securities. The Corporation's domestic and global market share of 17.1% and 13.0%, respectively, compares with 17.4% and 12.0%, respectively, in 1990.

Revenues from strategic services, including fees for merger and acquisition advisory, other advisory services and bridge financings, declined 44%. These revenues continued to be affected by a low level of merger and acquisition activity.

In 1990, investment banking revenues declined 27% from 1989, reflecting the significant decline in demand for the underwriting of corporate equities and high-yield securities, as well as lower strategic services revenues prevalent throughout the industry.

ASSET MANAGEMENT AND CUSTODIAL FEES

Asset management and custodial fees advanced 15% in 1991 due to increased levels of fees earned for both fund management and asset account management services.

Asset management fees, of which 87% are attributable to Merrill Lynch-sponsored mutual funds, increased 16% from 1990. This increase largely was due to a higher level of fees earned for managing fixed-income, money market and option/futures funds. Management fees from these fund categories increased 34%, 7% and 60%, respectively.

Assets under management by Merrill Lynch Asset Management increased $13 billion, or 12%, to $123 billion at year-end 1991, which includes $7.4 billion of investments of insurance subsidiaries. Although assets in all fund groups have increased from the prior year, fixed-income funds have gained a larger percentage of the mix, reflecting investors' preference for higher-yielding fixed-income investments over lower-rate certificates of deposit and money market funds. Fixed-income funds represented 21% of total assets under management at year-end 1991, up from 17% at year-end 1990, while money market funds represented 54% at year-end 1991, down from 59% at year-end 1990.

Fee-based revenues from CMA® accounts and retirement accounts increased 13% and 4%, respectively, from 1990. The advance in CMA fee revenue during 1991 is the result of a 25% increase in the annual service fee that was instituted in September 1991, as well as growth in the number of customer accounts. The increase in retirement account management fees is principally attributable to the growth in the number of accounts.

Asset management and custodial fees were 13% higher in 1990 than in 1989 as fees earned for both fund management and account management services increased.

OTHER REVENUES

Other revenues for 1991 increased 15% from 1990. Contributing to the increase was a higher level of fees related to the Corporation's investor portfolio management services as well as higher securities processing fees.

In 1990, other revenues declined 17% from the 1989 level due to significantly reduced realized gains from the sale of corporate investments, partially offset by increased fee revenues and receipt of an insurance settlement.

NON-INTEREST EXPENSES

Non-interest expenses of $6.2 billion increased 13% over the prior year, primarily due to growth in compensation and benefits expense. However, non-interest expenses excluding those closely tied to business volume – i.e., compensation and benefits and brokerage, clearing and exchange fees – of $2.1 billion declined 3% from 1990.

Compensation and benefits expense increased 26% due to higher volume-related compensation, increases in variable incentive compensation tied directly to the Corporation's performance, and increases related to a non-recurring 1990-1991 incentive program linked to the Corporation's return on equity ("ROE Plan"). ROE Plan costs of $169 million for 1991 compare with $13 million in the prior year. Despite the significant increase in the cost of the ROE Plan, compensation and benefits as a percentage of net revenues remained virtually unchanged when compared with 1990, at 53.3%. However, excluding the ROE Plan, the percentage of compensation and benefits to net revenues for 1991 was 51.0% compared with 52.9% in the prior year. The percentage of incremental compensation and benefits expense to incremental net revenues for 1991 was 53.8% (43.2% excluding the ROE Plan). While the ROE Plan expired in 1991, a substantial portion of compensation will continue to be tied to profitability and ROE. In addition, brokerage, clearing and exchange fees increased 5% as a result of increased business volume.

Occupancy, depreciation and amortization costs, in aggregate, declined 7%. Contributing to this decline were higher prior-year costs associated with the consolidation of existing facilities and the current-year benefit from such consolidation. Subleasing unused facilities in 1991, which serves to reduce occupancy costs, also contributed to the decline.

Communications and equipment rental costs declined 5% as a result of continued benefits from converting to a new provider of information services and a lower-cost telecommunications carrier, as well as the purchase rather than leasing of new equipment.

Advertising and market development expenses rose 11%, reflecting the higher cost of advertising and recognition programs for Financial Consultants and Account Executives due to the increased level of business activity, as well as the Corporation's sponsorship of the 1992 Olympic Games.

Professional fees were substantially unchanged from the prior year, while other expenses decreased 3% as a result of a lower level of loss provisions required for lending activities.

Non-interest expenses in 1990 declined 9% from 1989; however, excluding the $470 million restructuring charge in 1989, non-interest expenses declined 2%. The decline was the result of the reduction of fixed and variable costs due to the Corporation's restructuring program, partially offset by additional cost-control programs which commenced in 1990.

INCOME TAXES

The Corporation's 1991 income tax provision of $321 million represents an effective tax rate of 31.6%. This compares with an income tax provision of $90 million in 1990, representing a 32% effective tax rate, and $59 million from continuing operations in 1989, representing a negative effective tax rate.

The 1991 tax results were favorably affected by the utilization of alternative minimum tax credits and net operating loss tax benefit carryforwards. As of December 27, 1991, the Corporation had certain unrecognized tax benefits aggregating $26 million; this compares with $139 million at December 28, 1990. The Corporation's effective tax rate likely will increase in 1992 as a result of reduced availability of these tax benefits. Income tax expense continued to be negatively impacted by the allocation of Employee Stock Ownership Plan ("ESOP") shares under the retirement program established in 1989 since substantially all such allocations are not deductible.

The 1990 tax results also reflect the utilization of previously unrecognized tax benefits. The negative effective tax rate in 1989 primarily was caused by the necessity to provide state and foreign income taxes on the income of certain subsidiaries and by the inability to record a benefit for alternative minimum tax credits that were available to offset future tax liabilities.

LIQUIDITY AND LIABILITY MANAGEMENT

The primary objective of the Corporation's funding policies is to assure liquidity at all times. To strengthen liquidity, the Corporation maintains a strong capital base, issues term debt, obtains committed backup credit facilities, concentrates debt issuance through the Parent Company, and pursues expansion and diversification of funding instruments and creditors.

There are three key elements to the Corporation's liquidity strategy. The first is to maintain alternative funding sources such that all debt obligations maturing within one year, including commercial paper and the current portion of term debt, can be funded when due without issuing new unsecured debt or liquidating any business assets. The most significant alternative funding source would be the proceeds from executing repurchase agreements ("repos") and obtaining secured bank loans, both employing unencumbered investment-grade marketable securities. The calculation of proceeds available from repos and secured bank loans takes into account both a conservative estimate of excess collateral required by secured lenders, and regulatory restrictions on upstreaming cash from subsidiaries to the Parent Company. The ability to execute such secured funding is demonstrated by the Corporation's routine use of repo markets to finance inventory and by periodic tests of secured borrowing procedures with banks. Other alternative funding sources could include liquidating low-risk, short-term investments held by the Corporation, securitizing home equity loans, and drawing upon committed credit facilities. At year-end 1991, alternative funding sources as described above totaled $12.5 billion and exceeded all debt obligations maturing within one year by $.9 billion.

The second element of the Corporation's liquidity strategy is to concentrate all general purpose borrowing at the Parent Company level, except where international tax regulations and time differences make this impractical. The benefits of this guideline are: (a) the lower financing costs that result from the reduced risks of a diversified asset and business base; (b) the simplicity, control and wider name recognition from having creditors deal with one borrower; and (c) the flexibility to meet variable funding requirements of subsidiaries.

The third element is to expand and diversify funding sources and to maintain strict concentration standards for short-term lenders. The Corporation's short- and long-term funding programs benefit from the large, diversified customer base and financial creativity of the Corporation's capital market and private client operations. Commercial paper remains the Corporation's major source of short-term general purpose funding. Commercial paper outstanding totaled $7.7 billion or 9% of total assets at December 27, 1991, which compared with $7.0 billion or 10% of assets at December 28, 1990. Through its own sales force, the Corporation markets its commercial paper to thousands of investors and maintains concentration standards that include limits for any single investor. In 1991, total term debt issuance was a record $5.1 billion and took advantage of opportunities not only in the normal domestic debt markets but also various private and public placements in the Euro markets, including numerous currency-driven transactions. Foreign currencies and different interest rate indices were hedged to match the economic characteristics of the Corporation's assets. Outstanding term debt grew from $6.3 billion to $8.0 billion, with the average maturity increasing from 1.4 to 2.3 years.

CAPITAL RESOURCES AND CAPITAL ADEQUACY

With an equity base of $3.8 billion as of December 27, 1991, the Corporation remains one of the most highly capitalized institutions in the U.S. securities industry. The quality of this equity base is high as it includes $3.6 billion in common equity and $.2 billion in preferred stock. Overall capital needs are estimated by analyzing the risk profile of all on- and off-balance-sheet assets and activities, taking into account trading risk and counterparty credit limits which are established and monitored continuously by Risk Management and Corporate Credit units. Regulatory and legal capital requirements of subsidiaries, which are maintained in excess of regulatory requirements, are also considered. Based upon this analysis, management believes that the Corporation's equity base is more than adequate.

STOCKHOLDERS' EQUITY

Stockholders' equity at December 27, 1991 of $3.8 billion increased 18% compared with $3.2 billion at year-end 1990. The 1991 increase primarily resulted from net earnings, less common and preferred dividends paid by the Corporation.

The Corporation granted a total of approximately 2.9 million shares of common stock during 1991 to certain employees under the Long-Term Incentive Compensation Plan and Equity Capital Accumulation Plan.

In 1991, the Corporation repurchased approximately .9 million shares of common stock at an average cost of $34.57 per share to meet share requirements under the Employee Stock Purchase Plan and an additional 2.0 million shares at an average price of $41.64 per share. The Corporation also repurchased or redeemed 945 shares of Remarketed Preferred℠ stock at a price of $100,000 per share.

In 1991, the Corporation's convertible subordinated securities, Liquid Yield Option Notes, were redeemed or converted into common shares of the Corporation. This resulted in the issuance of 1,124 common shares.

At December 27, 1991, total shares outstanding, excluding the unallocated ESOP reversion common shares, amounted to 102.7 million common shares, an increase of 2.9% from 99.8 million shares outstanding at year-end 1990.

HIGHLY LEVERAGED TRANSACTIONS AND NON-INVESTMENT GRADE HOLDINGS

In conjunction with its investment and merchant banking activities, the Corporation provides financing and advisory services to, and invests in, corporations entering into leveraged transactions. At December 27, 1991, the carrying value of extensions of credit provided to such corporations aggregated $1.16 billion (excluding unutilized revolving lines of credit of $64 million), consisting primarily of senior term and subordinated financings to more than 50 medium-sized corporations, as well as $79 million of bridge financings to two corporations. At December 27, 1991, both bridge financings were in default. At year-end 1990 and 1989, extensions of credit aggregated $1.10 billion and $1.63 billion, respectively, and included $132 million and $668 million in bridge financings. Loans to highly leveraged enterprises are carried at unpaid principal balance less a reserve for estimated losses. Direct equity investments made in conjunction with the Corporation's investment and merchant banking activities, which are generally recorded at the lower of cost or fair value, aggregated $395 million, $333 million and $281 million at year-end 1991, 1990 and 1989, respectively, representing investments in approximately 100 enterprises.

At December 27, 1991, the Corporation held $52 million (recorded on the cost basis) in indirect equity investments through its participation as a general partner in partnerships that invest in highly leveraged transactions. These indirect investments aggregated approximately $50 million and $68 million at year-end 1990 and 1989, respectively. The Corporation has a co-investment arrangement in connection with a leveraged buyout fund it has sponsored and manages. Assuming the fund was fully invested at December 27, 1991, the Corporation's investment would be an additional $185 million. The Corporation has also committed to invest up to $18 million in other limited partnerships that invest in highly leveraged transactions.

In the normal course of its businesses, the Corporation purchases, sells and makes markets in non-investment grade securities. For purposes of this discussion, non-investment grade securities have been defined as debt and preferred equity securities which are non-rated or those rated by Standard and Poor's as BB+ or lower and by Moody's as Ba1 or lower (or equivalent ratings for other instruments and non-U.S. securities), as well as sovereign debt issued by less developed countries.

As a market maker, the Corporation holds inventory positions in non-investment grade securities. As of December 27, 1991, the fair value of long and short non-investment grade inventory positions amounted to $826 million and $150 million, respectively, and in aggregate (i.e., sum of long and short inventory positions), represented 2.8% of aggregate consolidated inventory positions. This compares with long and short inventory positions of $391 million and $126 million at year-end 1990, and $691 million and $169 million at year-end 1989.

Investments of the Corporation's insurance subsidiaries, which are carried at amortized cost, include non-investment grade securities. At December 27, 1991, $544 million or 5.6% of the aggregate carrying value of such investments was non-investment grade, compared with $571 million or 6.6% at year-end 1990 and $648 million or 9.0% at year-end 1989.

At December 27, 1991, the largest concentration of highly leveraged or non-investment grade positions related to a single issuer totaled $106 million. Additionally, no one industry sector represented more than 16% of highly leveraged and non-investment grade positions. At December 27, 1991, the Corporation held an aggregate carrying value of $189 million in securities of issuers who were in various stages of bankruptcy proceedings or in default (including both bridge financings). Approximately 10% of this amount results from the Corporation's market-making activities for securities of corporations in bankruptcy.

The Corporation's involvement in highly leveraged transactions and non-investment grade securities is subject to risks related to the creditworthiness of the issuers and the liquidity of the market for such securities, in addition to the usual risks associated with investing, extending credit, underwriting and trading in investment grade instruments. The specific components and overall level of highly leveraged and non-investment grade positions may vary significantly from period to period as a result of inventory turnover, investment sales and asset redeployment. In addition, the Corporation's valuation policies provide for recognition of market liquidity, as well as the trading pattern of specific securities.

CASH FLOWS

Total cash and cash equivalents decreased $713 million in 1991, compared with decreases of $265 million and $162 million in 1990 and 1989, respectively.

In 1991, cash provided by financing activities was used to fund operating and investing activities. In 1990 and 1989, cash provided from operating activities was used primarily for the repayment of short-term borrowings, including repurchase agreements, and investment activities.

Cash used for operating activities in 1991 of $8.6 billion primarily resulted from volume-related growth in inventories of $7.6 billion, securities borrowed of $4.1 billion and other receivables of $2.8 billion.

Partially offsetting the growth in operating assets were increases in commitments for securities sold but not yet purchased and customer liabilities of $3.4 billion and $1.3 billion, respectively. In 1991, non-cash items of $1.7 billion were included in net earnings of $696 million.

Cash provided by operating activities in 1990 of $3.3 billion reflects an increase in operating liabilities of $5.2 billion, partially offset by increases in inventories of $1.6 billion and segregated cash of $1.7 billion. This compares with cash of $6.0 billion provided by operating activities in 1989 primarily due to reductions in both inventories and operating receivables of $3.3 billion and $1.5 billion, respectively. Non-cash items of $1.4 billion were included in net earnings of $192 million in 1990, compared with non-cash items of $.8 billion (excluding the provision for restructuring) included in the 1989 net loss of $213 million.

In 1991, the Corporation used $1.5 billion for investing activities. This principally represents net purchases of investments by the Corporation's insurance subsidiaries of $1.0 billion. Cash used for investing activities of $.9 billion and $2.3 billion in 1990 and 1989 principally reflect net purchases of insurance investments of $1.1 billion and $1.0 billion, respectively.

In 1991, financing activities provided the Corporation with net cash of $9.4 billion. This reflects a $7.3 billion increase in repurchase agreements, net of resale agreements, and an $.8 billion increase in short-term borrowings, both of which represent funding for the growth in inventories and receivables. Issuances and resales of long-term borrowings of $6.4 billion offset the settlements and repurchases of $4.9 billion.

In 1990, the Corporation used $2.4 billion to repay various short-term and long-term borrowings. This compares with repayments of short-term borrowings during 1989 of $4.7 billion, partially offset by a net increase in long-term borrowings of $.6 billion and cash provided from the common stock issuance to the ESOP of $.4 billion.

STATEMENT OF CONSOLIDATED EARNINGS

(Dollars in Thousands, Except Per Share Amounts)	1991	1990	1989
	Year Ended Last Friday in December		
Revenues			
Commissions	$2,137,516	$1,756,858	$1,833,365
Interest and dividends	5,761,061	5,944,706	5,859,767
Principal transactions	1,893,725	1,441,431	1,237,598
Investment banking	1,175,992	795,444	1,095,879
Asset management and custodial fees	774,089	673,539	598,250
Other	620,462	538,838	651,092
Total Revenues	12,362,845	11,150,816	11,275,951
Interest Expense	5,106,344	5,363,900	5,371,028
Net Revenues	7,256,501	5,786,916	5,904,923
Non-Interest Expenses			
Compensation and benefits	3,867,849	3,077,485	3,084,028
Occupancy	473,562	519,156	487,928
Communications and equipment rental	348,969	365,529	423,306
Depreciation and amortization	276,125	289,361	290,089
Brokerage, clearing and exchange fees	249,861	237,618	232,668
Advertising and market development	249,844	225,712	247,775
Professional fees	235,344	233,565	249,710
Other	537,529	556,162	577,805
Provision for restructuring	–	–	470,000
Total Non-Interest Expenses	6,239,083	5,504,588	6,063,309
Earnings (Loss) Before Income Taxes and Discontinued Operations	1,017,418	282,328	(158,386)
Income tax expense	321,301	90,472	58,980
Earnings (Loss) Before Discontinued Operations	696,117	191,856	(217,366)
Discontinued Operations, Net of Income Taxes of $2,883	–	–	3,981
Net Earnings (Loss)	$ 696,117	$ 191,856	$ (213,385)
Net Earnings (Loss) Applicable to Common Stockholders	$ 678,392	$ 167,932	$ (235,401)
Primary Earnings (Loss) Per Common Share			
Earnings (Loss) Before Discontinued Operations	$ 6.02	$ 1.59	$ (2.35)
Discontinued Operations	–	–	.04
Net Earnings (Loss)	$ 6.02	$ 1.59	$ (2.31)
Fully Diluted Earnings (Loss) Per Common Share			
Earnings (Loss) Before Discontinued Operations	$ 5.90	$ 1.59	$ (2.35)
Discontinued Operations	–	–	.04
Net Earnings (Loss)	$ 5.90	$ 1.59	$ (2.31)

See Notes to Consolidated Financial Statements

Consolidated Balance Sheet

(Dollars in Thousands, Except Per Share Amounts)	December 27, 1991	December 28, 1990
Assets		
Cash and Cash Equivalents		
Cash	$ 337,114	$ 407,378
Interest-earning deposits	168,210	248,404
Floating rate short-term securities	568,600	1,130,997
Total	1,073,924	1,786,779
Cash Segregated and Securities Owned on Deposit for Regulatory and Other Purposes	3,354,591	4,042,028
Receivables		
Resale agreements	15,343,579	12,147,127
Customers (net of allowance for doubtful accounts of $43,291 in 1991 and $44,214 in 1990)	7,967,765	7,163,277
Securities borrowed	11,831,715	7,686,231
Loans, notes and mortgages (net of allowance for loan losses of $251,917 in 1991 and $272,375 in 1990)	2,318,971	2,411,715
Brokers and dealers	3,659,168	1,330,819
Interest	898,491	807,457
Other	1,055,189	713,832
Total	43,074,878	32,260,458
Inventories		
Corporates	9,794,268	7,729,492
Governments and agencies	7,107,559	3,895,549
Mortgages and mortgage-backed	4,579,132	2,762,870
Money market instruments	2,679,726	2,416,623
Municipals	747,747	479,302
Total	24,908,432	17,283,836
Investments of Insurance Subsidiaries	9,666,952	8,640,233
Other Assets		
Investment securities	1,232,161	1,152,377
Property, leasehold improvements and equipment (net of accumulated depreciation and amortization of $1,335,134 in 1991 and $1,108,672 in 1990)	1,559,097	1,646,276
Other	1,389,308	1,317,540
Total	4,180,566	4,116,193
Total Assets	$86,259,343	$68,129,527

See Notes to Consolidated Financial Statements

	December 27, 1991	December 28, 1990
Liabilities and Stockholders' Equity		
Liabilities		
Short-Term Borrowings		
Repurchase agreements	$24,522,275	$14,006,857
Commercial paper	7,682,897	6,993,222
Demand and time deposits	3,659,336	4,267,832
Securities loaned	2,482,143	1,931,937
Bank loans	350,893	141,067
Total	38,697,544	27,340,915
Commitments for Securities Sold but Not Yet Purchased		
Governments and agencies	5,785,869	3,125,027
Corporates	3,698,918	3,013,288
Municipals	110,195	69,302
Total	9,594,982	6,207,617
Other Liabilities		
Customers	10,735,474	9,482,055
Insurance	9,309,847	8,537,337
Brokers and dealers	1,582,737	2,608,359
Compensation and benefits	1,404,294	788,716
Drafts payable	866,128	1,128,957
Interest	442,688	680,838
Income taxes	338,623	385,906
Other	1,504,514	1,401,838
Total	26,184,305	25,014,006
Long-Term Borrowings	7,964,424	6,341,559
Total Liabilities	82,441,255	64,904,097
Stockholders' Equity		
Preferred stock, par value $1.00 per share (Liquidation preference $100,000 per share); authorized: 25,000,000 shares; issued: 1991–3,000 shares; 1990–3,000 shares	3	3
Common stock, par value $1.33⅓ per share; authorized: 200,000,000 shares; issued: 1991–117,346,424 shares; 1990–117,345,300 shares	156,461	156,460
Paid-in capital	1,456,070	1,439,466
Foreign currency translation adjustment	10,219	14,585
Retained earnings	2,803,392	2,228,721
Subtotal	4,426,145	3,839,235
Less:		
Treasury stock, at cost:		
Common stock: 1991–7,806,196 shares; 1990–9,474,681 shares	167,507	211,669
Preferred stock: 1991–945 shares	94,500	–
Unallocated ESOP shares, at cost:		
Common stock: 1991–6,818,410 shares; 1990–8,035,984 shares	214,780	253,133
Unamortized expense of restricted stock grants	72,682	84,784
Notes receivable related to sale of common stock to:		
ESOP	58,277	63,257
Employees	311	962
Total Stockholders' Equity	3,818,088	3,225,430
Total Liabilities and Stockholders' Equity	$86,259,343	$68,129,527

STATEMENT OF CHANGES IN CONSOLIDATED STOCKHOLDERS' EQUITY

(Dollars in Thousands, Except Per Share Amounts)	Year Ended Last Friday in December 1991	1990	1989
Preferred Stock, par value $1.00			
Balance, beginning of year (3,000 shares in 1991, 1990 and 1989)	$ 3	$ 3	$ 3
Balance, end of year (3,000 shares in 1991, 1990 and 1989)	$ 3	$ 3	$ 3
Common Stock, par value $1.33¹/₃			
Balance, beginning of year (117,345,300 shares in 1991; 117,345,247 in 1990; 112,217,217 in 1989)	$ 156,460	$ 156,460	$ 149,622
Issued:			
To ESOP (5,000,000 shares in 1989)	–	–	6,667
Employee stock grants (112,100 shares in 1989)	–	–	150
To debenture holders through conversion rights (1,124 shares in 1991; 53 shares in 1990; 15,930 shares in 1989)	1	–	21
Balance, end of year (117,346,424 shares in 1991; 117,345,300 shares in 1990; 117,345,247 shares in 1989)	$ 156,461	$ 156,460	$ 156,460
Paid-In Capital			
Balance, beginning of year	$ 1,439,466	$ 1,488,928	$ 1,312,167
Issuance of Common stock:			
To employees	(5,604)	(7,331)	(6,204)
Employee stock grants	5,583	(27,547)	9,636
To debenture holders through conversion rights	68	3	793
To ESOP (including allocation of shares in 1991 and 1990)	16,557	(14,587)	172,536
Balance, end of year	$ 1,456,070	$ 1,439,466	$ 1,488,928
Foreign Currency Translation Adjustment			
Balance, beginning of year	$ 14,585	$ (14,809)	$ 18,915
Translation adjustment*	(4,366)	29,394	(33,724)
Balance, end of year	$ 10,219	$ 14,585	$ (14,809)
Retained Earnings			
Balance, beginning of year	$ 2,228,721	$ 2,164,502	$ 2,500,422
Net earnings (loss)	696,117	191,856	(213,385)
Cash dividends declared:			
Remarketed Preferred stock	(18,080)	(23,920)	(20,936)
Common stock ($1.00 per share in 1991, 1990 and 1989)	(103,366)	(103,717)	(101,599)
Balance, end of year	$ 2,803,392	$ 2,228,721	$ 2,164,502
Treasury Stock, at cost			
Common:			
Balance, beginning of year (9,474,681 shares in 1991; 5,327,139 in 1990; 13,530,718 in 1989)	$ (211,669)	$ (144,333)	$ (373,044)
Treasury stock purchased (2,959,926 shares in 1991; 5,889,856 in 1990; 2,676,579 in 1989)	(116,612)	(121,553)	(76,199)
Issued out of treasury (net of reacquisitions):			
Employees (881,705 shares in 1991; 725,999 in 1990; 761,079 in 1989)	30,462	8,453	19,798
Employee stock grants (3,746,706 shares in 1991; 1,016,315 in 1990; 2,948,344 in 1989)	130,312	45,764	83,074
ESOP (7,170,735 shares in 1989)	–	–	202,038
Balance, end of year (7,806,196 shares in 1991; 9,474,681 in 1990; 5,327,139 in 1989)	$ (167,507)	$ (211,669)	$ (144,333)
Preferred:			
Treasury stock purchased (945 shares in 1991)	$ (94,500)	$ –	$ –
Balance, end of year (945 shares in 1991)	$ (94,500)	$ –	$ –
Unallocated ESOP shares, at cost			
Balance, beginning of year (8,035,984 shares in 1991; 9,326,731 in 1990)	$ (253,133)	$ (293,792)	$ –
Issuance of ESOP shares (9,948,513 shares in 1989)	–	–	(313,378)
Allocation of shares to participants (1,217,574 shares in 1991; 1,290,747 in 1990; 621,782 in 1989)	38,353	40,659	19,586
Balance, end of year (6,818,410 shares in 1991; 8,035,984 in 1990; 9,326,731 in 1989)	$ (214,780)	$ (253,133)	$ (293,792)
Unamortized Expense of Restricted Stock Grants			
Balance, beginning of year	$ (84,784)	$ (130,960)	$ (110,232)
Net issuance of employee stock grants	(62,025)	(10,643)	(84,993)
Amortization of employee stock grants	74,127	56,819	64,265
Balance, end of year	$ (72,682)	$ (84,784)	$ (130,960)
Notes Receivable Related to Sale of Common Stock to ESOP			
Balance, beginning of year	$ (63,257)	$ (70,000)	$ –
Notes receivable for issuance of ESOP shares	–	–	(70,000)
Principal repayment	4,980	6,743	–
Balance, end of year	$ (58,277)	$ (63,257)	$ (70,000)
Notes Receivable Related to Sale of Common Stock to Employees			
Balance, beginning of year	$ (962)	$ (4,656)	$ (13,675)
Collection of notes receivable	651	3,694	9,019
Balance, end of year	$ (311)	$ (962)	$ (4,656)
Total Stockholders' Equity	$ 3,818,088	$ 3,225,430	$ 3,151,343

**Net of income tax benefit of $1,074 and $4,921 in 1991 and 1989, respectively, and income tax expense of $4,478 in 1990.*
See Notes to Consolidated Financial Statements

STATEMENT OF CONSOLIDATED CASH FLOWS

(Dollars in Thousands)	Year Ended Last Friday in December 1991	1990	1989
Cash Flows from Operating Activities:			
Net Earnings (Loss)	$ 696,117	$ 191,856	$ (213,385)
Noncash items included in earnings (loss):			
Depreciation and amortization	276,125	289,361	290,089
Insurance and annuity reserves	720,358	652,467	324,734
Provision for restructuring	–	–	470,000
Other	714,321	445,286	171,393
(Increase) decrease in operating assets:			
Inventories	(7,624,596)	(1,562,620)	3,319,067
Cash segregated and securities owned on deposit for regulatory and other purposes	687,437	(1,733,556)	(248,348)
Customers	(813,377)	510,469	1,618,206
Securities borrowed	(4,145,484)	(537,884)	(2,102,071)
Other receivables	(2,760,403)	(226,579)	1,963,493
Increase (decrease) in operating liabilities:			
Commitments for securities sold but not yet purchased	3,387,365	2,019,811	(1,259,645)
Customers	1,253,419	1,481,469	1,287,519
Insurance	52,152	369,292	1,065,459
Other liabilities	(1,039,657)	1,360,774	(647,588)
Cash (Used for) Provided by Operating Activities	(8,596,223)	3,260,146	6,038,923
Cash Flows from Investing Activities:			
Proceeds from (payments for):			
Sales of investments by insurance subsidiaries	4,537,265	1,823,038	456,912
Purchase of investments by insurance subsidiaries	(5,552,334)	(2,914,109)	(1,446,989)
Purchase of minority holdings in real estate subsidiary	–	–	(122,628)
Sale of real estate subsidiary	–	–	280,000
Purchase of insurance subsidiary	–	–	(86,325)
Investment securities and other assets	(338,926)	425,740	(1,085,396)
Property, leasehold improvements and equipment	(188,946)	(263,656)	(313,711)
Cash Used for Investing Activities	(1,542,941)	(928,987)	(2,318,137)
Cash Flows from Financing Activities:			
Proceeds from (payments for):			
Repurchase agreements, net of resale agreements	7,318,966	(959,764)	(4,190,642)
Short-term borrowings	841,211	(759,331)	(490,142)
Issuance and resale of long-term borrowings	6,395,992	4,285,224	3,536,831
Settlement and repurchases of long-term borrowings	(4,859,142)	(4,924,815)	(2,940,737)
Repurchases of Remarketed Preferred stock	(94,500)	–	–
Issuance of common stock to ESOP	–	–	383,378
Other common stock transactions	(54,772)	(109,404)	(45,278)
Dividends	(121,446)	(127,637)	(122,535)
Cash Provided from (Used for) Financing Activities	9,426,309	(2,595,727)	(3,869,125)
Decrease in Cash and Cash Equivalents	(712,855)	(264,568)	(148,339)
Cash and Cash Equivalents, beginning of year	1,786,779	2,051,347	2,212,851
Less: Cash and cash equivalents of discontinued real estate subsidiary, December 30, 1988	–	–	(20,688)
Add: Cash and cash equivalents of the purchased insurance subsidiary, September 29, 1989	–	–	7,523
Cash and Cash Equivalents, end of year	$ 1,073,924	$ 1,786,779	$ 2,051,347

Income tax payments totaled $354,773 in 1991, $115,734 in 1990 and $80,318 in 1989.
Interest payments totaled $5,311,974 in 1991, $4,626,461 in 1990 and $4,936,882 in 1989.
See Notes to Consolidated Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Merrill Lynch & Co., Inc. and all significant subsidiaries (collectively referred to as the "Corporation"). All material intercompany balances and transactions have been eliminated. During 1991, insurance revenues and expenses, previously reported separately in the Statement of Consolidated Earnings, were combined with the remaining revenue and expense categories to reflect the integration of insurance with the Corporation's other investment services. The change, implemented in the 1991 second quarter after the sale of the Corporation's mortgage life insurance business, presents revenues and expenses derived from proprietary insurance products (principally annuity and interest-sensitive life contracts) on a basis consistent with that of other investment products sold by the Corporation. Additionally, certain other more limited classification and format changes have been implemented. Prior years' financial statements have been reclassified to conform to the 1991 presentation.

For purposes of the Statement of Consolidated Cash Flows, the Corporation defines cash equivalents as short-term, highly liquid securities other than those held for sale in the ordinary course of business.

Security Transactions

Inventories and Commitments for Securities Sold but Not Yet Purchased, contracts for financial futures, forwards, options, and interest rate and currency swaps are valued at fair value. Fair value is based on quoted market prices, pricing models (utilizing indicators of general market condition or other such economic measurements) or determined by management based upon estimates of amounts to be realized upon settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. Net unrealized gains and losses resulting from these transactions are reflected in earnings of the current period. Inventory transactions, commission revenues and related expenses are recorded on a trade date basis.

The Corporation, in the normal course of business, enters into when-issued and delayed delivery transactions. Unrealized gains and losses on these transactions are reflected in earnings of the current period.

Investment securities include equity and long-term debt instruments other than those held for sale in the normal course of business. Equity investment securities are carried at the lower of cost or fair value. The amount by which cost exceeds fair value is reflected in earnings of the current period. Debt investment securities are carried at amortized cost unless a decline in value is deemed other than temporary, in which case the carrying value of the investment is adjusted. The amortization of premium or accretion of discount, as well as any unrealized loss deemed other than temporary, is reflected in earnings of the current period.

Repurchase and Resale Agreements

Repurchase and resale agreements are accounted for as collateralized financing transactions and are reported at the amounts for which the securities will be reacquired or resold, including accrued interest. The Corporation's policy is to take possession of securities purchased under resale agreements. This collateral is valued daily with additional collateral, as required through contractual provisions, obtained when appropriate to ensure that the market value of the underlying collateral remains sufficient.

Income Taxes

Merrill Lynch & Co., Inc. and certain of its wholly owned subsidiaries file a consolidated Federal income tax return. The Corporation uses the liability method in providing income taxes on all transactions that have been recognized in the financial statements, in accordance with Statement of Financial Accounting Standards No. 96, *Accounting for Income Taxes* ("SFAS 96"). The liability method provides that deferred taxes be adjusted to reflect tax rates at which future tax liabilities are expected to be settled. The effects of tax rate changes on future deferred tax liabilities and deferred tax benefits, as well as other changes in income tax laws, are recognized in net earnings in the period such changes are enacted. In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ("SFAS 109"), which will supersede SFAS 96, effective in 1993. The impact of SFAS 109 on the Corporation's consolidated financial condition has not been determined. The Corporation does not provide deferred income taxes on undistributed earnings of its foreign subsidiaries, as these earnings are considered to be permanently reinvested.

Property, Leasehold Improvements and Equipment

Property (excluding land), leasehold improvements and equipment are reported at historical cost, net of accumulated depreciation and amortization. Land is reported at historical cost.

Depreciation and amortization are computed using the straight-line method. Property and equipment are depreciated over the estimated useful lives of the assets, while leasehold improvements are amortized over the lesser of the estimated economic useful life of the asset or the term of the lease. Maintenance and repair costs are expensed as incurred.

Facilities-related depreciation and amortization expense aggregated $122,686, $124,170 and $128,627 in 1991, 1990 and 1989, respectively. Non-facilities-related depreciation and amortization expense for 1991, 1990 and 1989 was $153,439, $165,191 and $161,462, respectively.

Insurance

Insurance liabilities represent future benefits payable related to annuity and interest-sensitive life contracts and reflect deposits received plus interest credited during the contract accumulation period, the present value of future payments for contracts which have annuitized, and a mortality provision for certain products. Interest crediting rates range from 3.70% to 9.30%. Liabilities for unpaid claims and claim adjustment expenses are based on the experience of the Corporation. Deposits are recorded as insurance liabilities when received.

Investments held by insurance subsidiaries consist primarily of debt securities which are carried at amortized cost, unless a decline in value is deemed other than temporary, in which case the carrying value is adjusted.

Policy withdrawal, maintenance and other fees are recognized as revenue when earned.

Certain variable costs related to the sale or acquisition of new and renewal insurance contracts have been deferred to the extent such costs are deemed recoverable from future income. Deferred costs are amortized, based on actuarial factors, (a) over the period during which the surrender charge is in effect for annuity products; and (b) over the lives of the contracts in proportion to the estimated gross profit expected to be realized for life products.

Separate account assets and liabilities represent segregated funds administered and invested by insurance subsidiaries of the Corporation for purposes of funding variable annuity and variable life contracts. Subsidiaries of the Corporation receive various administrative and advisory fees for managing such funds. Such separate account assets are accounted for as customer assets since the contract holders bear the risk of ownership, consistent with the Corporation's other investment products. Accordingly, separate account assets and the related liabilities are not consolidated with the assets and liabilities of the Corporation.

Interest Expense

Interest expense includes payments in lieu of dividends of $32,520, $20,793 and $20,001 in 1991, 1990 and 1989, respectively.

DISCONTINUED OPERATIONS

In September 1989, the Corporation sold its limited partnership interest in Fine Homes International, L.P. (FHI), a master limited partnership created by the Corporation, and its 100% equity interest in FHI's general partner, a subsidiary of the Corporation. Discontinued operations for 1989 include earnings from operations of FHI through August 4, 1989, the measurement date of the disposal.

OTHER SIGNIFICANT EVENTS

Provision for Restructuring

In the fourth quarter of 1989, the Corporation committed to divest certain non-strategic product lines and business activities, to consolidate and relocate selected retail and support facilities and to downsize certain other operations. Accordingly, an after-tax provision of $395,000 ($470,000 before income taxes) for the estimated costs of this restructuring was recorded which reduced earnings per common share for 1989 by $3.85.

Insurance Transactions

In September 1989, the Corporation acquired an additional 50% voting interest in Tandem Financial Group, Inc., a holding company which, through its two wholly owned insurance companies, primarily engaged in the issuance of annuity contracts. The acquisition, which increased the Corporation's ownership interest to 100%, was accounted for as a purchase.

As of December 31, 1990, under an indemnity reinsurance and assumption agreement with Monarch Life Insurance Company (Monarch Life), the Corporation's insurance subsidiaries indemnity reinsured all the variable life insurance policies issued by Monarch Life and sold through the Corporation's retail network. During 1991, separate account assets and related liabilities approximating $3,040,000 were transferred to such subsidiaries.

Under the aforementioned agreement, the Corporation paid an initial ceding commission of $201,700 to Monarch Life. The agreement provides for contingent ceding commission payments to Monarch Life dependent upon the lapse rate during the five years ending in 1995 and mortality experience during the ten years ending in 2000. Subsequent to year-end, a letter of intent was signed with Monarch Life, whereby the servicing of the reinsured policies will be transferred to an insurance subsidiary of the Corporation.

INCOME TAXES

Income tax provisions (benefits) on earnings (loss) before discontinued operations consisted of:

		1991	1990	1989
Federal:	Current	$218,013	$120,948	$ 38,778
	Deferred	(51,774)	(63,851)	(41,432)
Foreign:	Current	33,265	8,739	43,182
	Deferred	1,179	(1,803)	(4,783)
State and Local:	Current	127,961	13,781	24,942
	Deferred	(7,343)	12,658	(1,707)
Total		$321,301	$ 90,472	$ 58,980

A reconciliation of the statutory Federal income tax to the Corporation's income tax provision for earnings (loss) before discontinued operations follows:

	1991	1990	1989
Federal income tax (benefit) at statutory rates	$345,922	$ 95,992	$ (53,850)
State and local income taxes, net	79,607	17,450	15,377
Tax-exempt interest	(4,142)	(3,139)	(6,062)
Dividends received deduction	(13,378)	(22,539)	(26,666)
Foreign operations	12,370	19,229	25,906
Pension plan transaction	20,713	11,205	(940)
Alternative minimum tax, net of credits recognized	(77,508)	27,403	28,645
Unrecognized net operating loss tax benefit	–	–	74,387
Utilization of net operating loss tax benefits	(42,588)	(63,419)	–
Adjustments to deferred taxes on leveraged leases	(3,533)	9,984	4,832
Other, net	3,838	(1,694)	(2,649)
Total	$321,301	$ 90,472	$ 58,980

For financial reporting purposes, the Corporation utilized during 1991, $117,000 of net operating loss and alternative minimum tax benefits in the current Federal tax provision and had $26,000 of unrecognized tax benefits at December 27, 1991. These unrecognized tax benefits relate principally to state and local net operating loss and alternative minimum tax credit carryforwards.

Deferred income taxes are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements. These temporary differences result in taxable or deductible amounts in future years. The 1991 deferred Federal tax provision includes tax benefits from both deferred compensation plans of $(26,000) and the divestiture of a subsidiary of $(28,000). In 1990, the principal items included net recognized tax benefits of $(36,000) and valuation and liability reserves of $(30,000). In 1989, the principal items were $93,000 of net unrecognized tax benefits offset by $(135,000) for valuation and liability reserves.

Undistributed earnings of foreign subsidiaries, which could be subject to additional income taxes if repatriated, amounted to approximately $410,000 at December 27, 1991. No deferred Federal income taxes have been provided for the undistributed earnings as those earnings have been, and will continue to be, reinvested in the Corporation's foreign operations. It is not practicable to determine the hypothetical deferred tax liability that would be related to the undistributed earnings. The amount of foreign withholding tax that would be payable upon distribution is immaterial. Earnings (Loss) before income taxes and discontinued operations include approximately $133,200, $(8,800) and $73,600 of earnings (loss) attributable to foreign operations for the years 1991, 1990 and 1989, respectively.

PER COMMON SHARE COMPUTATION

Primary earnings (loss) per common share is computed by dividing net earnings (loss), after deducting preferred stock dividend requirements of $17,725, $23,924 and $22,016 for 1991, 1990 and 1989, respectively, by the weighted average number of common shares and common stock equivalents outstanding during each year. Shares of common stock issued or issuable under various employee stock plans are considered common stock equivalents (incremental shares) for 1991 and 1990.

The weighted average number of common shares and common stock equivalents included in the primary and fully diluted per common share computations are set forth below:

	1991	1990	1989
Primary:			
Weighted average common shares	102,377,000	102,610,000	101,859,000
Incremental shares	10,298,000	2,916,000	–
Total	112,675,000	105,526,000	101,859,000
Fully Diluted:			
Weighted average common shares	102,377,000	102,610,000	101,859,000
Incremental shares	12,581,000	2,916,000	–
Total	114,958,000	105,526,000	101,859,000

PREFERRED STOCK

The Corporation is authorized to issue 25,000,000 shares of $1.00 par value per share preferred stock of which 3,000 shares of Remarketed Preferred ("RP") stock, Series C, are issued and 2,055 are outstanding at December 27, 1991. The Corporation redeemed or repurchased, through January 1992, 1,062 of its 3,000 RP shares initially outstanding at a redemption/repurchase price of $100,000 per share plus accumulated dividends.

At the end of each dividend period, the RP stock, Series C, is subject to a remarketing process. As part of the remarketing process, both the dividend period and the dividend rate may be adjusted for periods generally of seven and 49 days with a maximum dividend rate dependent on the credit rating assigned to the RP shares. Dividends on RP stock, Series C, are cumulative and payable when declared by the authority of the Corporation's Board of Directors. Dividend rates in effect during 1991 on RP stock, Series C, ranged from 4.25% to 9.00% per annum. The maximum dividend rate on the RP stock, Series C, ranges from 115% to 250% of the "AA" Composite Commercial Paper Rate based on the Moody's and Standard and Poor's ratings on the date on which the dividend rate is reset. Total dividends declared on RP shares in 1991 were $18,080. Generally, the Corporation has the option of redeeming the RP stock, Series C shares, in whole or in part, at $100,000 per share plus accumulated dividends on any dividend payment date.

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a subsidiary of the Corporation, acts as one of the remarketing agents for the RP stock and may occasionally acquire a temporary position in the RP stock in its capacity as a market maker. At December 27, 1991, no material amount of RP stock was held by MLPF&S for the purpose of resale.

The Corporation's Stockholder Rights Plan provides for the distribution of preferred stock purchase rights to common stockholders which separate from the common stock ten days following: (a) an announcement of an acquisition by a person or group ("acquiring party") of 20% or more of the outstanding common shares of the Corporation; or (b) the commencement of a tender offer or exchange offer for 30% or more of the common shares. One right attached to each share of common stock outstanding as of January 8, 1988 and attaches to all shares issued thereafter. Each right entitles the holder to purchase one one-hundredth of a

share (a "unit") of Series A Junior Preferred Stock, par value $1.00 per share, at an exercise price of $100 per unit. The units of preferred stock are nonredeemable, voting and are entitled to certain preferential dividend rights. The exercise price and the number of units issuable are subject to adjustment to prevent dilution.

If, after the rights have been distributed, the Corporation is a party to a business combination or other specifically defined transaction, each right (other than those held by the acquiring party) will entitle the holder to receive, upon exercise, units of preferred stock or shares of common stock of the surviving company with a value equal to two times the exercise price of the right. The rights expire December 16, 1997 and are redeemable (at the option of a majority of the independent directors of the Corporation) at $.01 per right at any time until the tenth day following an announcement of the acquisition of 20% or more of the Corporation's common shares.

INVESTMENTS OF INSURANCE SUBSIDIARIES

Information regarding investments of insurance subsidiaries as of December 27, 1991 and December 28, 1990 follows:

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Year-End 1991				
Corporate securities	$3,682,328	$158,429	$ (25,125)	$3,815,632
Mortgage-backed securities	4,377,566	189,575	(4,186)	4,562,955
Other debt securities	60,730	4,322	–	65,052
Total Debt Securities	8,120,624	352,326	(29,311)	8,443,639
Other Investments	1,546,328	1,410	(4,853)	1,542,885
Total	$9,666,952	$353,736	$ (34,164)	$9,986,524
Year-End 1990				
Corporate securities	$4,370,626	$ 22,995	$(146,519)	$4,247,102
Mortgage-backed securities	3,264,323	53,784	(10,483)	3,307,624
Other debt securities	122,208	2,019	(4,820)	119,407
Total Debt Securities	7,757,157	78,798	(161,822)	7,674,133
Other Investments	883,076	209	(2,705)	880,580
Total	$8,640,233	$ 79,007	$(164,527)	$8,554,713

The carrying value and estimated fair value of debt securities at December 27, 1991, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Maturities	Carrying Value	Estimated Fair Value
Due in one year or less	$ 128,136	$ 129,183
Due after one year through five years	1,397,362	1,446,685
Due after five years through ten years	1,379,186	1,436,055
Due after ten years	838,374	868,761
Subtotal	3,743,058	3,880,684
Mortgage-backed securities	4,377,566	4,562,955
Total	$8,120,624	$8,443,639

Proceeds from sales of investments in debt securities during 1991 were $4,331,389. Gross gains of $94,450 and gross losses of $99,383 were realized on those sales.

LONG-TERM BORROWINGS

Long-term borrowings at December 27, 1991 and December 28, 1990 consisted of the following:

	1991	1990
Senior Debt:*		
U.S. Dollar denominated fixed-rate obligations due 1992 to 2019 at interest rates ranging from 7.125% to 12.125%	$3,665,287	$2,334,477
Foreign currency denominated fixed-rate obligations due 1992 to 2003 at interest rates ranging from 5.65% to 13.0%	695,124	450,080
U.S. Dollar denominated variable-rate obligations	814,519	1,665,904
U.S. Dollar denominated medium-term notes	2,677,540	1,487,913
Foreign currency denominated medium-term notes	111,954	29,840
Total	7,964,424	5,968,214
Subordinated Debt:		
Liquid Yield Option Notes (LYONs) due 2006 (Zero Coupon)	–	261,968
Index LYONs due 1991 (Zero Coupon)	–	111,377
Total	–	373,345
Total Long-Term Borrowings	$7,964,424	$6,341,559

Rates and maturities presented are as of December 27, 1991.

Maturities of long-term borrowings at December 27, 1991 consisted of the following:

Maturities	Senior Debt
1992	$2,883,200
1993	1,644,160
1994	1,477,569
1995	516,338
1996	253,686
1997 and thereafter	1,189,471
Total	$7,964,424

As of December 27, 1991, floating interest rates have been obtained on $3,321,260 of the Corporation's U.S. dollar denominated fixed-rate obligations and all of its foreign currency denominated fixed-rate obligations. The effective weighted average interest rate on fixed-rate obligations swapped into floating rate obligations was 6.15% in 1991. The Corporation has swapped its foreign currency denominated fixed-rate obligations into U.S. dollar liabilities. The effective weighted average interest rate on the remaining fixed-rate long-term obligations, which amounted to $344,027 at year-end, was 8.65% in 1991.

The effective weighted average interest rate on the Corporation's U.S. Dollar denominated variable-rate obligations was 6.33% in 1991. Floating interest rates are generally based on variable rates such as the "AA" Commercial Paper Composite Rate, U.S. Treasury Bill rates, the London Interbank Offered Rate ("LIBOR") or the Federal Funds rates ("Fed Funds").

The effective weighted average interest rate on all medium-term notes was 7.14% in 1991. Maturities of medium-term notes can range from nine months to ten years from the date of issue.

At December 28, 1990, subordinated debt consisted of Index LYONs which matured in 1991 and Liquid Yield Option Notes ("LYONs") due 2006. The LYONs were convertible into shares of the Corporation's common stock at the ratio of 5.31 shares for each one thousand dollar face amount. During the fourth quarter of 1991, the LYONs were repurchased, redeemed or converted into common stock.

Certain long-term borrowing agreements contain provisions whereby the borrowings are redeemable at the option of the holder at specified dates prior to maturity. Pursuant to these provisions, long-term borrowings that mature in 1993 and thereafter may be redeemed at the earliest in 1992 and 1994 in the amounts of $296,471 and $199,575, respectively. Management believes, however, that a significant portion of such borrowings will remain outstanding beyond their earliest redemption date.

Subsequent to December 27, 1991 and through February 24, 1992, long-term borrowings, net of issuances, decreased in the amount of approximately $403,707.

REVOLVING CREDIT AGREEMENTS

The Corporation has obtained committed, unsecured revolving lines of credit aggregating $4,545,000 under agreements with three groups of banks. The details of these agreements for 1991 are presented below. There were no borrowings under any of these agreements during the year ended December 27, 1991. The agreements contain provisions that require, among other things, that the Corporation maintain specified levels of net worth, as defined in the agreements, on the date of an advance.

	1991	Maturity Date	
Committed Unsecured Revolving Lines of Credit:			
International Banks	$2,055,000	July/ Nov.	1992*
Money Center Banks	1,000,000	July	1993**
Regional Banks	1,490,000	March	1994
Total	$4,545,000		

**$1,355,000 matures in July 1992; $700,000 matures in November 1992. At maturity, the Corporation may convert any amount then borrowed into two-year term loans which would mature in July and November 1994, respectively.*

***At maturity, the Corporation may convert amounts then borrowed into a term loan which would mature in July 1995.*

REGULATORY REQUIREMENTS AND DIVIDEND RESTRICTIONS

As a broker/dealer, MLPF&S is subject to the Securities and Exchange Commission's net capital rule. Under the alternative method permitted by this rule, the minimum required net capital, as defined, shall not be less than 2% of aggregate debit balances arising from customer transactions. At December 27, 1991, MLPF&S's regulatory net capital of $771,801 was 9% of aggregate debit balances, and its regulatory net capital in excess of the minimum required was $597,098.

As a primary dealer in U.S. Government securities, Merrill Lynch Government Securities Inc. ("MLGSI"), a subsidiary of the Corporation, is subject to the Capital Adequacy Rule required by the Government Securities Act of 1986. This rule requires dealers to maintain liquid capital in excess of their market and credit risk, as defined, by 20% (a 1.2-to-1 capital-to-risk standard). At December 27, 1991, MLGSI's liquid capital of $965,536 was 337% of its total market and credit risk, and liquid capital in excess of the minimum required was $621,356.

In addition to amounts presented in the accompanying balance sheet as Cash Segregated and Securities Owned on Deposit for Regulatory and Other Purposes, securities with a market value of $1,147,019 primarily collateralizing resale agreements have been segregated in a special reserve bank account for the exclusive benefit of customers pursuant to the Reserve Formula requirements of SEC Rule 15c3-3.

The Corporation's insurance subsidiaries are subject to various regulatory restrictions that limit the amount available for distribution as dividends. As of December 27, 1991, $824,575, representing 100% of the insurance subsidiaries' net assets, was unavailable for distribution to the Corporation. In addition to insurance subsidiaries, certain other subsidiaries are also subject to various restrictions, principally regulatory requirements, which may limit cash dividends and advances to the Corporation. At December 27, 1991, $1,552,860 of the net assets of those subsidiaries may be restricted as to payment of cash dividends and advances to the Corporation.

There are no restrictions on the Corporation's present ability to pay dividends on common stock, other than (a) the Corporation's obligation first to make dividend payments on its preferred stock, and (b) the governing provisions of the Delaware General Corporation Law.

EMPLOYEE BENEFIT PLANS

The Corporation has a comprehensive program to provide retirement benefits to its employees worldwide through both defined contribution and defined benefit plans. The Corporation reserves the right to amend or terminate this program at any time.

Defined Contribution Plans

The U.S. defined contribution plans consist of the Retirement Accumulation Plan ("RAP"), the Employee Stock Ownership Plan ("ESOP"), and the 401(k) Savings & Investment Plan ("SIP"). The RAP, ESOP and SIP cover substantially all U.S. employees. Contributions to the RAP are made in cash. Allocations of stock held in the ESOP and cash contributed to the RAP are made quarterly based on years of service, age and eligible compensation levels. Generally, only cash contributions are deductible for income tax purposes.

In September 1989, the Corporation sold 12,170,735 shares of common stock to the ESOP trust for $383,378. The ESOP trust funded the acquisition with $313,378 of residual funds from a terminated defined benefit pension plan and a loan of $70,000 from a subsidiary of the Corporation.

Shares held in the ESOP resulting from cash funding are to be allocated to participant accounts over a period of not more than eight years beginning in 1989. Shares held in the ESOP funded by the loan are allocated to participant accounts as principal on the loan is repaid. The loan to the ESOP trust, due September 5, 1999, bears interest at 9.1% per annum, with principal and interest payable quarterly upon receipt of dividends on certain shares of common stock or other cash contributions. Interest incurred on the ESOP debt during 1991 and 1990 amounted to $5,626 and $6,106, respectively. The 1991 and 1990 dividends on ESOP shares used for debt service amounted to $9,705 and $13,927, respectively.

As of December 27, 1991, 3,130,103 shares were allocated to participant accounts. The unallocated portion of shares purchased with the residual funds from the terminated defined benefit pension plan of $214,780, and the outstanding loan to the ESOP trust of $58,277, are reflected as reductions to stockholders' equity.

Employees can participate in the SIP by contributing, on a tax-deferred basis, up to 15% of their eligible compensation but not more than a maximum annual amount allowed by law. The Corporation's contributions, up to a maximum of fifteen hundred dollars annually, are equal to one-half of the first 4% of each participant's eligible compensation contributed. No corporate contributions are made for participants who are also Employee Stock Purchase Plan ("ESPP") participants.

Defined Benefit Plans

In the U.S., the Corporation purchased a group annuity contract from Metropolitan Life Insurance Company that pays benefits vested under the defined benefit plan which was terminated, in accordance with the applicable provisions of ERISA. As of December 27, 1991, a substantial portion of the assets of Metropolitan Life Insurance Company supporting the annuity was invested in U.S. Government and agency and U.S. Government-sponsored securities. The Corporation, under a supplemental agreement, may be responsible for or benefit from, actuarial experience and investment performance of these annuity assets.

Employees of certain non-U.S. subsidiaries participate in various local plans. These pension plans provide benefits that are generally based on years of credited service and a percentage of the employee's eligible compensation during the final years of employment. The Corporation's funding policy has been to contribute annually the amount necessary to satisfy local funding standards.

Pension Plan Cost and Funded Status

Pension cost includes the following components:

	1991	1990	1989
Defined benefit plans *(1)*:			
Service cost: benefits earned during the year *(2)*	$ 8,512	$ 8,982	$ 14,961
Interest cost on projected benefit obligation	78,254	74,881	73,998
Actual return on plan assets	(189,527)	(24,825)	(195,243)
Deferral and amortization of unrecognized items	107,004	(57,174)	97,715
Total defined benefit plan cost (credit)	4,243	1,864	(8,569)
Defined contribution plan cost	111,904	112,137	111,153
Total pension cost *(3)*	$ 116,147	$ 114,001	$ 102,584

(1) The following actuarial assumptions were used in calculating the defined benefit plan cost (credit) and benefit obligations. Rates as of the beginning of the year are:

	1992	*1991*	*1990*
Discount rate	*8.0%*	*9.0%*	*9.0%*
Rate of compensation increase (not applicable to terminated plan)	*7.5%*	*7.8%*	*7.8%*
Expected long-term rate of return on plan assets	*7.6%*	*8.5%*	*8.4%*

(2) The Corporation calculated service cost using the projected unit credit method based on years of service to date.

(3) Total pension cost excludes supplemental retirement and other benefit plan costs.

The funded status of the defined benefit plans (including the terminated plan) was as follows:

	1991		1990	
	Plans in which:		Plans in which:	
	Assets Exceeded Accumulated Benefits	Accumulated Benefits Exceeded Assets	Assets Exceeded Accumulated Benefits	Accumulated Benefits Exceeded Assets
Actuarial present value of:				
Vested accumulated benefit obligation	$(1,006,864)	$ (13,767)	$(824,824)	$ (14,250)
Non-vested accumulated benefit obligation	(5,296)	(1,749)	(3,495)	(2,862)
Accumulated benefit obligation	(1,012,160)	(15,516)	(828,319)	(17,112)
Effect of assumed increase in compensation levels	(21,696)	(8,252)	(39,341)	(11,205)
Projected benefit obligation	(1,033,856)	(23,768)	(867,660)	(28,317)
Plan assets at fair value	1,131,209	–	973,124	7,464
Plan assets in excess of (less than) projected benefit obligation	97,353	(23,768)	105,464	(20,853)
Unrecognized net liability at transition	4,449	1,848	4,715	2,044
Unrecognized net loss (gain)	23,343	(342)	11,476	(1,825)
Unrecognized prior service cost	2,466	(47)	3,602	(1,272)
Prepaid (accrued) pension cost	$ 127,611	$ (22,309)	$ 125,257	$ (21,906)

Supplemental Retirement and Other Benefit Plans

The Corporation also has supplemental retirement and other benefit plans. The unfunded projected benefit obligation related to these plans was $5,819 and $6,156 in 1991 and 1990, respectively. Supplemental retirement and other benefit plan costs were $1,464, $1,222 and $2,062 in 1991, 1990 and 1989, respectively.

Postretirement Benefits Other Than Pensions

The Corporation provides certain health care and life insurance benefits for retired employees. The Corporation reserves the right to amend or terminate this program at any time. Substantially all of the Corporation's employees become eligible for these benefits upon attainment of age 55 and completion of 10 years of service. The cost of these benefits is expensed as claims are paid and totaled $6,379, $4,004 and $2,589 in 1991, 1990 and 1989, respectively.

In December 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* ("SFAS 106"). SFAS 106, effective for 1993, will require that the Corporation change its method of accounting for postretirement health care and life insurance benefits from expensing these costs on a pay-as-you-go basis to an accrual basis. This change in accounting will require the recognition of a transition obligation which represents the actuarial present value of benefits attributed to prior employee service. Based on the Corporation's existing postretirement benefit plans, it is estimated that, at the date of mandatory adoption of SFAS 106, this obligation will range from $145,000 to $175,000. In accordance with SFAS 106, this obligation may be recognized in net earnings in the year of adoption or may be accrued on a straight-line basis over a 20-year period.

EMPLOYEE STOCK PLANS

The Employee Stock Purchase Plan ("ESPP") allows eligible employees to invest from 1% to 10% of their eligible compensation, subject to certain limitations, in the Corporation's common stock at a purchase price equal to 85% of the fair market value of the stock on four quarterly investment dates. Stock purchases are generally made through authorized payroll deductions. Up to 12,500,000 shares of the Corporation's common stock have been authorized for issuance under the ESPP.

The activity in the ESPP for the two most recent plan years was as follows:

	ESPP Shares	
	1991	1990
Available, beginning of year	2,562,089	4,175,888
Authorized during the year	3,000,000	–
Purchased through plan	(938,737)	(1,613,799)
Available, end of year	4,623,352	2,562,089

The Equity Capital Accumulation Plan ("ECAP") provides for grants of both Performance and Restricted Shares to senior management and other eligible employees who pay no cash consideration therefor. Upon grant, Restricted Shares are issued and outstanding shares of the Corporation's common stock and are subject to forfeiture during the established Restricted Period. A Performance Share is deemed to be equivalent in fair market value to one share of the Corporation's common stock and is subject to forfeiture during the established Performance Period. Performance Shares are payable 50% in cash and 50% in the Corporation's common stock. Payment of Restricted Shares and Performance Shares is contingent upon continued employment for a specified period of time and, with respect to Performance Shares, the achievement of specific performance goals. Up to 13,100,000 shares of the Corporation's common stock have been authorized for issuance under the ECAP. At December 27, 1991, there were 1,201,829 shares available for issuance to employees under the ECAP. Restricted Shares forfeited by employees after October 31, 1991 have been excluded from shares available for issuance.

The activity in the ECAP for the years ended December 27, 1991 and December 28, 1990 was as follows:

	Restricted Shares		Performance Shares	
	1991	1990	1991	1990
Outstanding, beginning of year	7,017,570	8,804,685	322,500	495,000
Granted	1,123,686	41,595	–	–
Paid or released from contingencies	(2,054,802)	(1,049,203)	–	(60,375)
Forfeited	(288,481)	(779,507)	–	(112,125)
Outstanding, end of year	5,797,973	7,017,570	322,500	322,500

Under the Financial Consultant Capital Accumulation Award Plan and its predecessor plans ("FCCAAP"), eligible employees are granted awards generally based upon their prior year's performance. Payment for an award is contingent upon continued employment for a specified period of time and is subject to forfeiture during that period. The award is payable at the end of such period in either common shares of the Corporation or in cash, depending on the market value of the Corporation's common stock. A total of 6,111,415 shares of the Corporation's common stock have been authorized for issuance under the FCCAAP. Although the first grant is scheduled to be paid in 1996, under certain circumstances grants may be paid prior to the scheduled dates. At December 27, 1991, there were 956,178 shares available for issuance under the FCCAAP.

The Long-Term Incentive Compensation Plan ("Long-Term Plan") provides for grants of Performance Shares and Units, Restricted Shares and Units, Incentive and Nonqualified Stock Options, Stock Appreciation Rights and Other ML&Co. Securities to certain key employees. Up to 40,000,000 shares of the Corporation's common stock have been authorized for distribution under the Long-Term Plan. Performance Units, Restricted Units and in certain circumstances Stock Appreciation Rights and Other ML&Co. Securities are paid in cash.

Payments under the Long-Term Plan are contingent upon continued employment for a specified period of time; and with respect to Performance Shares and Performance Units, the achievement of specific performance goals.

Upon grant, a Performance Share is deemed to be equivalent in fair market value to one share of the Corporation's common stock, and shares issued in payment could be subject to a Restricted Period subsequent to the termination of the Performance Period. Restricted Shares are shares of the Corporation's common stock that are subject to forfeiture during a Vesting Period. Each Performance and Restricted Unit is deemed to be equivalent in fair market value to one share of common stock and is payable in cash at the end of the Performance Period or Vesting Period. Performance Shares or Restricted Shares could be subject to a certain Restricted Period subsequent to the termination of the Performance Period or Vesting Period. Cash amounts equal to cash dividends payable on an equivalent number of shares of the Corporation's common stock are payable to Restricted Unit holders and may be payable to Performance Unit and Performance Share holders. As of December 27, 1991, there have been no grants of Performance Shares, Performance Units, Stock Appreciation Rights or Other ML&Co. Securities under the Long-Term Plan.

The activity for Restricted Shares and Units under the Long-Term Plan for the years ended December 27, 1991 and December 28, 1990 was as follows:

	Restricted Shares		Restricted Units	
	1991	1990	1991	1990
Outstanding, beginning of year	1,475,420	50,000	1,508,904	–
Granted	1,742,591	1,512,161	1,829,931	1,616,315
Forfeited or released from contingencies	(117,610)	(86,741)	(157,868)	(107,411)
Outstanding, end of year	3,100,401	1,475,420	3,180,967	1,508,904

Under the Long-Term Plan, eligible employees may also be granted Incentive and Nonqualified Stock Options to purchase shares of the Corporation's common stock. The exercise price of Incentive Stock Options may not be less than 100% of the fair market value of the Corporation's common stock at time of grant. The exercise price for Nonqualified Stock Options is established at the time of grant and cannot be less than 50% of the fair market value of a share of common stock at the time of grant. Stock Options granted in 1991 and 1990 are exercisable annually in four equal installments commencing after January 16, 1992 and January 24, 1991, respectively. The Stock Options expire ten years after their grant date.

The activity for Nonqualified Stock Options under the Long-Term Plan for the years ended December 27, 1991 and December 28, 1990 was as follows:

	Shares Subject to Option	
	1991	1990
Balance, beginning of year	8,412,060	3,343,860
Granted	6,777,649	5,760,800
Exercised	(1,071,733)	(1,875)
Forfeited or surrendered	(479,105)	(690,725)
Balance, end of year	13,638,871	8,412,060

The option prices per share range from $21.375 to $29.4375

At December 27, 1991, there were 22,158,689 shares available for issuance to employees under the Long-Term Plan. Restricted Shares forfeited by employees after October 31, 1991 have been excluded from shares available for issuance. In January 1992, eligible participants were granted Nonqualified Stock Options for 2,720,350 shares. In February 1992, 812,388 and 816,416 Restricted Shares and Units, respectively, were granted to eligible employees.

The Incentive Equity Purchase Plan ("IEPP") allows selected employees to purchase the Corporation's common stock at a price equal to the book value per share as of the valuation date preceding the purchase date ("Book Value Shares"). These shares may be sold back to the Corporation at the book value per share as of the valuation date preceding the sale (adjusted for certain non-recurring items), provided they have been held for a minimum of six months. Alternatively, the Book Value Shares may be exchanged at any time for a specified number of freely transferable market shares, the number of which is determined by the ratio of book value to market value at the time of purchase. Up to 15,000,000 shares of the Corporation's common stock have been authorized for issuance under the IEPP. At December 27, 1991, 12,790,469 shares were available for purchase by eligible employees. Shares reacquired from employees after April 25, 1991 through purchase or exchange have been excluded from the total Book Value Shares available for purchase. Book Value Shares outstanding at December 27, 1991 and December 28, 1990 were 827,900 and 919,700, respectively.

Under the Management Capital Accumulation Plan ("MCAP"), eligible retail management employees are granted MCAP Units. MCAP Units are equivalent to, and payable in, shares of the Corporation's common stock. Payment of the MCAP Units is contingent upon continued employment for a specified period of time and is subject to forfeiture during this period. During this period, MCAP Units are credited with an amount equal to cash dividends payable on an equivalent number of shares of the Corporation's common stock. Such dividend equivalents are converted into additional MCAP Units. A total of 2,000,000 shares of the Corporation's common stock are authorized for issuance under the MCAP. Shares of common stock issued under the MCAP may only be shares held as treasury stock. At December 27, 1991, there were 1,654,308 shares available for issuance to employees under the MCAP. MCAP Units outstanding at December 27, 1991 and December 28, 1990 were 737,989 and 854,397, respectively.

COMMITMENTS AND CONTINGENCIES

Commitments to Extend Credit

The Corporation, in the normal course of business, enters into commitments to extend credit primarily in connection with certain merchant banking transactions and to provide customers lines of credit collateralized by second mortgages on real estate or certain liquid assets of small businesses. Such commitments may expose the Corporation to off-balance-sheet credit risk. These commitments, which usually have a fixed expiration date, are contingent upon certain contractual conditions and may require the payment of a fee by the counterparty.

Collateral required in connection with merchant banking credit extensions is dependent upon the creditworthiness of the counterparty and varies in accordance with market conditions. Such collateral is continually monitored and additional collateral is obtained when appropriate. The total amount of outstanding commitments may not represent future cash requirements as commitments may expire without being drawn upon. As of December 27, 1991, the Corporation has committed to extend credit of $799,607.

Customer Activities

In the normal course of business, the Corporation executes, settles and finances various customer securities and commodity transactions. These transactions include the purchase and sale (including "short" sales) of securities, the writing of options, and the purchase and sale of commodity and financial futures contracts. In accordance with industry practice, the Corporation records customer transactions on a settlement date basis, which is generally five business days after trade date.

These activities may expose the Corporation to off-balance-sheet risk arising from the potential that customers or counterparties may fail to satisfy their obligations and the collateral will be insufficient. In these situations, the Corporation may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to its customers or counterparties.

The Corporation seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with regulatory and internal guidelines. The Corporation monitors trade date customer exposure and collateral values daily and requires customers to deposit additional collateral or reduce positions when necessary.

Assets Pledged and Other Secured Transactions

In the normal course of business, the Corporation executes, settles and finances proprietary security and commodity transactions. In addition, the Corporation borrows and lends securities to finance securities transactions and facilitate the settlement process, utilizing both securities owned by the Corporation and securities owned by customers collateralizing margin debt. The Corporation also finances its security transactions through collateralized resale and repurchase agreements.

When the Corporation borrows securities, it usually provides the counterparty with collateral in the form of cash, letters of credit or other securities. When the Corporation lends securities, it receives collateral in the form of cash or other securities at least equal to the market value of securities owned.

Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities failed to receive) are recorded at amounts for which the securities were acquired and are paid upon receipt of the securities from other brokers or dealers.

When the Corporation enters into repurchase and resale agreements, these contracts are generally collateralized by U.S. Government and agency securities, medium-term notes or asset-backed securities. In accordance with industry practice, repurchase agreements are collateralized by cash or securities with a market value in excess of the Corporation's obligation under the contract.

The Corporation seeks to control the risk associated with these transactions by establishing and monitoring credit limits for significant counterparties for each type of transaction and monitoring collateral and transaction levels daily. The Corporation may require counterparties to deposit additional collateral or return collateral pledged. In the case of aged securities failed to receive, the Corporation may, under industry regulation, purchase the underlying security in the market and seek reimbursement for losses from the counterparty. The market value of securities owned by the Corporation that were collateralizing either repurchase agreements or obligations associated with various settlement processes or have been loaned at December 27, 1991 and December 28, 1990, approximated $14,026,000 and $7,521,000, respectively.

Futures, Forward, Swap and Option Contracts

The Corporation uses financial futures contracts and forward contracts involving mortgage-backed securities as a dealer and to hedge inventory. Additionally, the Corporation enters into foreign exchange forward contracts for trading and hedging certain foreign currency positions including the U.S. dollar cost of future foreign currency requirements. Forward and financial futures contracts are transactions in which one party agrees to deliver a financial instrument to a counterparty at a specified price on a specified date. The Corporation is exposed to off-balance-sheet market risk associated with the possibility of unfavorable changes in the market price of the underlying financial instruments.

The Corporation enters into swap transactions, including swap options, caps, collars and floors, primarily as a dealer and to hedge inventory positions. Swap agreements between counterparties entail the exchange of periodic payments based on specific rates applied to a specified notional amount. Participants are exposed to off-balance-sheet market risk associated with potential unfavorable changes in underlying interest, currency exchange or other market rates.

The Corporation seeks to control these risks by developing and refining hedging strategies that correlate price movements of securities inventory and related hedges.

The notional or contractual amounts of these instruments are set forth below:

	Notional or Contractual Amount	
	1991	**1990**
Forward and Futures Contracts:		
Securities	$137,406,000	$ 44,306,000
Foreign Exchange	$ 81,427,000	$ 53,258,000
Swap Agreements:		
Interest and Currency Swaps	$163,039,000	$126,081,000
Options, Caps, Collars and Floors	$ 32,321,000	$ 19,390,000

The notional or contractual amounts of these instruments do not represent the Corporation's exposure to credit risk. Credit risk arises from the failure of the counterparty to perform according to the terms of the contract. The Corporation's exposure to credit risk associated with forward agreements and swap agreements is limited to the current cost of replacing all contracts in which the Corporation has a gain. At December 27, 1991 and December 28, 1990, this amounted to $1,707,000 and $640,000 with respect to forward contracts and $2,168,000 and $1,538,000 with respect to swap agreements, respectively.

The Corporation enters into option contracts as a dealer and to hedge inventory positions. Option contracts provide a counterparty with the right to purchase or sell a financial instrument at a specific price before or on an established date. For options written, the Corporation receives a premium for bearing the risk associated with unfavorable changes in the market price of the underlying financial instrument. Options may be written on numerous financial instruments including securities, currencies and futures contracts as well as indices. The contractual amounts of options written and outstanding (excluding swap options) at December 27, 1991 and December 28, 1990 were $32,464,000 and $28,682,000, respectively.

In addition to futures, forward, swap and option contracts, the Corporation, in the normal course of business, enters into commitments to sell securities not yet purchased which are recorded as liabilities on the balance sheet. The Corporation is exposed to off-balance-sheet risk that potential market price increases will cause the ultimate obligation for such commitments to exceed the amount recognized on the balance sheet.

Leases
The Corporation has entered into various noncancelable long-term lease agreements for premises and equipment that expire through 2024 including the World Financial Center headquarters (WFC). The Corporation has also entered into various noncancelable short-term lease agreements which are primarily monthly commitments of less than one year under equipment leases. Future minimum rental commitments with initial or remaining noncancelable lease terms exceeding one year are presented below:

	WFC	Other	Total
Minimum Rental Commitments:			
1992	$ 122,920	$177,504	$ 300,424
1993	$ 123,433	$165,015	$ 288,448
1994	$ 123,947	$129,047	$ 252,994
1995	$ 124,461	$107,314	$ 231,775
1996	$ 124,836	$ 96,128	$ 220,964
Thereafter	$2,700,824	$465,953	$3,166,777

Total minimum rental commitments have not been reduced by the $871,822 of sublease rentals to be received in the future under noncancelable subleases.

Other Commitments
In the normal course of business, the Corporation enters into when-issued transactions and underwriting commitments. Settlement of these transactions as of December 27, 1991 would not have a material effect on the consolidated financial condition of the Corporation.

In the normal course of business, the Corporation obtains letters of credit to satisfy various collateral requirements in lieu of the Corporation depositing securities or cash. A standby letter of credit represents the guarantee of an obligation to a beneficiary on the part of an issuer. Letters of credit aggregated $2,548,000 at December 27, 1991.

Effective January 1991, the Corporation adopted an investment certificate program for all Financial Consultants. Under this program, all Financial Consultants meeting established production and asset gathering criteria are issued investment certificates with a face amount of $100. Such certificates mature ten years from the date issued and are payable if certain performance requirements are achieved. Failure to achieve such performance requirements and to be continuously employed by the Corporation after the ten year period results (with certain exceptions) in the certificates expiring. The certificates bear interest commencing with the date the requirements are achieved. Financial Consultants who do not initially meet the eligibility requirements become eligible to receive similar certificates upon meeting such requirements. As of December 27, 1991, $22,000 has been accrued with respect to this program.

The Corporation entered into a renewable service agreement with a provider of data processing services. Under the terms of the agreement, the Corporation will receive market data services and certain other services in return for a commitment to pay the provider a minimum amount during the initial contract period ending in 1996. As of December 27, 1991, minimum fee commitments under the contract aggregated $74,125.

The Corporation has a co-investment arrangement in connection with a leveraged buyout fund it has sponsored and manages. If the fund is fully invested, the Corporation's investment would be an additional $185,000.

Litigation
There are numerous civil actions pending against the Corporation as of December 27, 1991, some of which involve claims for substantial amounts. Although the ultimate outcome of these actions cannot be ascertained at this time, and liabilities of indeterminate amounts may be imposed upon the Corporation, it is the opinion of management that the resolution of these suits will not have a material adverse effect on the consolidated financial condition of the Corporation. Item 3, "Legal Proceedings," in the Corporation's 1991 Form 10-K Annual Report, which is available upon request, contains additional information concerning pending lawsuits.

CONCENTRATIONS OF CREDIT RISK
The Corporation provides investment, financing, insurance and related services to a diverse group of domestic and foreign customers including governments, corporations, and institutional and individual investors. The Corporation's exposure to credit risk associated with these transactions is measured on an individual customer basis, as well as by groups of customers that share similar attributes. To alleviate the potential for risk concentration, credit limits are established and continually monitored in light of changing customer and market conditions. In the normal course of providing such services, the Corporation requires collateral on a basis consistent with industry practice or regulatory requirements. The type and amount of collateral is continually monitored and counterparties are required to provide additional collateral as necessary.

In conjunction with its investment and merchant banking activities, the Corporation from time to time provides short-term bridge financing and is also active in providing other extensions of credit and equity investments to facilitate leveraged transactions. Additionally, in the normal course of business, the Corporation purchases, sells and makes markets in non-investment grade securities. For the purposes of this discussion, non-investment grade securities have been defined as debt and preferred equity securities which are non-rated or those rated by Standard and Poor's as BB+ or lower or by Moody's as Ba1 or lower (or equivalent ratings for other instruments and non-U.S. securities), as well as sovereign debt issued by less developed countries.

These activities expose the Corporation to a higher degree of credit risk than that associated with investing, extending credit, underwriting and trading in investment grade instruments. As of December 27, 1991, the Corporation's aggregate exposure to credit risk (both on- and off-balance sheet) associated with non-investment grade securities, high-yield financings and highly leveraged transactions amounted to $3,394,000. (See "Highly Leveraged Transactions and Non-Investment Grade Holdings" included in Management's Discussion and Analysis.)

(Dollars in Thousands)	Year Ended Last Friday in December									
	1991		1990		1989		1988		1987	
	(52 Weeks)		(52 Weeks)		(52 Weeks)		(53 Weeks)		(52 Weeks)	
REVENUES										
Commissions										
Listed securities	$ 1,064,977	8.6%	$ 840,650	7.6%	$ 988,801	8.8%	$ 850,005	8.7%	$ 1,298,532	14.3%
Mutual funds	519,089	4.2	389,524	3.5	321,889	2.8	287,314	3.0	527,715	5.8
Money market instruments	175,980	1.4	189,963	1.7	187,159	1.7	190,490	2.0	125,791	1.4
Other commissions	377,470	3.1	336,721	3.0	335,516	3.0	318,642	3.3	575,458	6.3
Total	2,137,516	17.3	1,756,858	15.8	1,833,365	16.3	1,646,451	17.0	2,527,496	27.8
Interest and Dividends										
Securities owned and deposits	3,041,847	24.6	3,074,339	27.6	3,322,181	29.5	2,456,097	25.3	2,041,091	22.5
Resale agreements	1,301,844	10.5	1,488,409	13.3	1,427,797	12.7	978,345	10.1	785,187	8.7
Investments of insurance subsidiaries	847,950	6.9	778,069	7.0	378,783	3.3	184,242	1.9	124,719	1.4
Customer margin accounts	569,420	4.6	603,889	5.4	731,006	6.5	631,298	6.5	691,905	7.6
Total	5,761,061	46.6	5,944,706	53.3	5,859,767	52.0	4,249,982	43.8	3,642,902	40.2
Principal Transactions										
Fixed-income and foreign exchange	1,402,630	11.3	1,141,837	10.2	860,100	7.6	1,176,618	12.1	324,273	3.6
Corporate equities	491,095	4.0	299,594	2.7	377,498	3.3	315,003	3.3	403,873	4.4
Total	1,893,725	15.3	1,441,431	12.9	1,237,598	10.9	1,491,621	15.4	728,146	8.0
Investment Banking										
Underwriting	1,038,525	8.4	551,112	4.9	738,288	6.5	926,944	9.5	791,272	8.7
Strategic services	137,467	1.1	244,332	2.2	357,591	3.2	269,935	2.8	204,730	2.3
Total	1,175,992	9.5	795,444	7.1	1,095,879	9.7	1,196,879	12.3	996,002	11.0
Asset Management and Custodial Fees	774,089	6.3	673,539	6.1	598,250	5.3	519,222	5.4	489,735	5.4
Other	620,462	5.0	538,838	4.8	651,092	5.8	590,825	6.1	551,412	6.1
Gain on Sales of Portions of Leasing Business	–	–	–	–	–	–	–	–	16,512	0.2
Gain on Corporate Headquarters Transactions	–	–	–	–	–	–	–	–	120,230	1.3
Total Revenues	12,362,845	100.0	11,150,816	100.0	11,275,951	100.0	9,694,980	100.0	9,072,435	100.0
Interest Expense	5,106,344	41.3	5,363,900	48.1	5,371,028	47.6	3,768,203	38.9	3,069,978	33.8
Net Revenues	7,256,501	58.7	5,786,916	51.9	5,904,923	52.4	5,926,777	61.1	6,002,457	66.2
NON-INTEREST EXPENSES										
Compensation and benefits	3,867,849	53.3	3,077,485	53.2	3,084,028	52.2	2,835,716	47.9	3,265,910	54.4
Occupancy	473,562	6.5	519,156	9.0	487,928	8.3	483,884	8.2	397,311	6.6
Communications and equipment rental	348,969	4.8	365,529	6.3	423,306	7.2	440,010	7.4	437,974	7.3
Depreciation and amortization	276,125	3.8	289,361	5.0	290,089	4.9	264,367	4.5	240,651	4.0
Brokerage, clearing and exchange fees	249,861	3.5	237,618	4.1	232,668	3.9	208,521	3.5	225,951	3.8
Advertising and market development	249,844	3.5	225,712	3.9	247,775	4.2	239,932	4.0	237,408	3.9
Professional fees	235,344	3.2	233,565	4.0	249,710	4.2	215,531	3.6	233,755	3.9
Other	537,529	7.4	556,162	9.6	577,805	9.8	562,051	9.5	599,656	10.0
Provision for restructuring	–	–	–	–	470,000	8.0	65,509	1.1	–	–
Total Non-Interest Expenses	6,239,083	86.0	5,504,588	95.1	6,063,309	102.7	5,315,521	89.7	5,638,616	93.9
Earnings (Loss) Before Income Taxes, Discontinued Operations and Cumulative Effect of a Change in Accounting for Income Taxes	1,017,418	14.0	282,328	4.9	(158,386)	(2.7)	611,256	10.3	363,841	6.1
Income Tax Expense	321,301	4.4	90,472	1.6	58,980	1.0	165,361	2.8	33,915	0.6
Earnings (Loss) Before Discontinued Operations and Cumulative Effect of a Change in Accounting for Income Taxes	696,117	9.6	191,856	3.3	(217,366)	(3.7)	445,895	7.5	329,926	5.5
Discontinued Operations, Net of Income Taxes	–	–	–	–	3,981	0.1	17,287	0.3	42,020	0.7
Cumulative Effect of a Change in Accounting for Income Taxes	–	–	–	–	–	–	–	–	(36,838)	(0.6)
Net Earnings (Loss)	$ 696,117	9.6%	$ 191,856	3.3%	$ (213,385)	(3.6)%	$ 463,182	7.8%	$ 335,108	5.6%

**Revenues and Interest Expense are presented as a percentage of Total Revenues. Non-Interest Expenses, Income Taxes and Earnings are presented as a percentage of Net Revenues.*

DIVIDENDS PER COMMON SHARE
(declared and paid)

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
1991	$.25	$.25	$.25	$.25
1990	$.25	$.25	$.25	$.25

There are no restrictions on the Corporation's present ability to pay dividends on common stock, other than (a) the Corporation's obligation first to make dividend payments on its preferred stock and (b) the governing provisions of the Delaware General Corporation Law. Certain subsidiaries' ability to declare dividends may also be limited as described in the Notes to Consolidated Financial Statements under the caption "Regulatory Requirements and Dividend Restrictions."

STOCKHOLDER INFORMATION

Consolidated Transaction Reporting System prices for the specified calendar quarters were as follows:

	1st Qtr.		2nd Qtr.		3rd Qtr.		4th Qtr.	
	High	Low	High	Low	High	Low	High	Low
1991	$36	$19 1/8	$42 1/8	$34 5/8	$50 1/4	$38 3/8	$60 7/8	$44 1/8
1990	$27 1/4	$20 3/4	$25 5/8	$20 1/2	$26	$17 1/2	$22 5/8	$16 1/8

The approximate number of record holders of common stock as of February 7, 1992 was 14,800.

INDUSTRY AND FOREIGN OPERATIONS DATA

The Corporation operates principally in the investment and financing services industry. Such operations include agency transactions, proprietary transactions, investment management, underwriting and sale of interest-sensitive life and annuity products, investment banking and merchant banking.

Information regarding the Corporation's foreign operations is presented below. Investment and financing services are provided on a global basis and, due to the integration of U.S. and non-U.S. services, it is not possible to precisely separate foreign operations. Accordingly, the foreign operations information is based upon internal allocations, which necessarily involve certain management judgments.

(Dollars in Thousands)	1991	1990	1989
Foreign Operations:			
Total Revenues	$ 1,620,022	$1,471,467	$1,650,372
Provision for Restructuring	$ –	$ –	$ 51,600
Earnings (Loss) Before Income Taxes	$ 35,475	$ (24,915)	$ (27,070)
Identifiable Assets	$13,655,004	$9,403,996	$7,883,577

QUARTERLY INFORMATION

The table below sets forth the unaudited results of operations of the Corporation by quarter for 1991 and 1990. The information contained herein is prepared in conformity with generally accepted accounting principles. As such, it reflects all adjustments (which consist of only normal recurring adjustments) that are, in the opinion of the management of the Corporation, necessary for a fair presentation of the results of operations for the periods presented. The nature of the Corporation's business is such that the results of an interim period are not necessarily indicative of results for a full year.

								For the Quarter Ended
(Dollars in Thousands, Except Per Share Amounts)	Dec. 27, 1991	Sept. 27, 1991	June 28, 1991	March 29, 1991	Dec. 28, 1990	Sept. 28, 1990	June 29, 1990	March 30, 1990
Total Revenues	$3,122,327	$3,037,508	$3,063,861	$3,139,149	$2,794,780	$2,846,938	$2,857,907	$2,651,191
Interest Expense	1,248,375	1,254,752	1,256,105	1,347,112	1,404,896	1,389,811	1,343,702	1,225,491
Net Revenues	1,873,952	1,782,756	1,807,756	1,792,037	1,389,884	1,457,127	1,514,205	1,425,700
Total Non-Interest Expenses	1,624,488	1,548,672	1,538,400	1,527,523	1,372,351	1,381,588	1,392,662	1,357,987
Earnings Before Income Taxes	249,464	234,084	269,356	264,514	17,533	75,539	121,543	67,713
Income Tax Expense (Benefit)	78,781	73,924	85,052	83,544	(12,798)	29,460	47,403	26,407
Net Earnings	$ 170,683	$ 160,160	$ 184,304	$ 180,970	$ 30,331	$ 46,079	$ 74,140	$ 41,306
Primary Earnings Per Common Share	$ 1.46	$ 1.37	$ 1.58	$ 1.62	$ .23	$ .38	$ .64	$ .34
Fully Diluted Earnings Per Common Share	$ 1.45	$ 1.35	$ 1.55	$ 1.55	$ .23	$ .38	$ .64	$ .34

BOARD OF DIRECTORS

William O. Bourke

Chairman and Chief Executive Officer of Reynolds Metals Company... 64 years old... elected a Director of Merrill Lynch in 1987.

John F. Burlingame

Retired Vice Chairman of the Board and Executive Officer of General Electric Company... Corporate Director... 69 years old... elected a Director of Merrill Lynch in 1985.

Jill K. Conway

Visiting Scholar, Massachusetts Institute of Technology... President of Smith College from 1975 to 1985... 57 years old... elected a Director of Merrill Lynch in 1978.

William J. Crowe, Jr.

Admiral, United States Navy (Retired)... served as Chairman of the Joint Chiefs of Staff... Professor of Geopolitics at the University of Oklahoma... 67 years old... elected a Director of Merrill Lynch in 1989.

Stephen L. Hammerman

Executive Vice President and General Counsel... 53 years old... joined Merrill Lynch in 1978.

Robert A. Hanson

Retired Chairman of the Board and formerly Chief Executive Officer of Deere & Company... 67 years old... Corporate Director... elected a Director of Merrill Lynch in 1984.

Earle H. Harbison, Jr.

President and Chief Operating Officer of Monsanto Company... 63 years old... elected a Director of Merrill Lynch in 1987.

James H. Lorie

Professor of Business Administration at the University of Chicago Graduate School of Business... formerly served as Director of the School's Center for Research in Security Prices... 70 years old... elected a Director of Merrill Lynch in 1980.

Robert P. Luciano

Chairman and Chief Executive Officer of Schering-Plough Corporation... 58 years old... elected a Director of Merrill Lynch in 1989.

John J. Phelan, Jr.

Former Chairman and Chief Executive Officer of the New York Stock Exchange, Inc.... Corporate Director... 60 years old... became a Director of Merrill Lynch in 1991.

Charles A. Sanders, M.D.

Chairman and Chief Executive Officer of Glaxo Inc.... formerly Vice Chairman of Squibb Corporation... 60 years old... elected a Director of Merrill Lynch in 1987.

William A. Schreyer

Chairman of the Board and Chief Executive Officer... 64 years old... joined Merrill Lynch in 1948.

Daniel P. Tully

President and Chief Operating Officer... 60 years old... joined Merrill Lynch in 1955.

MERRILL LYNCH & CO., INC.
EXECUTIVE VICE PRESIDENTS

Herbert M. Allison, Jr.
Finance & Administration

Michael von Clemm
Global Business Development

Barry S. Friedberg
Investment Banking Group

Edward L. Goldberg
Operations, Systems and Telecommunications

Stephen L. Hammerman
General Counsel

Jerome P. Kenney
Corporate Strategy & Research

David H. Komansky
Equity Markets Group

Thomas H. Patrick
Insurance Group

John L. Steffens
Private Client Group

Roger M. Vasey
Debt Markets Group

Arthur Zeikel
Asset Management Group

Merrill Lynch congratulates the New York Stock Exchange on the occasion of its bicentennial.

Executive Offices
Merrill Lynch & Co., Inc.
World Financial Center
North Tower
New York, NY 10281-1332

COMMON STOCK

Exchange Listings

The common stock of Merrill Lynch (trading symbol MER) is listed on the New York Stock Exchange; the Midwest Stock Exchange; the Pacific Stock Exchange; The Bourse, Paris; The International Stock Exchange of the United Kingdom and Republic of Ireland; and the Tokyo Stock Exchange.

Transfer Agent and Registrar

Merrill Lynch & Co., Inc. is the principal transfer agent for its own common stock. Questions from registered stockholders on dividends, stops, lost and stolen certificates, changes of legal or dividend addresses, and other matters relating to registered stockholder status should be sent to:

Merrill Lynch & Co., Inc.
P.O. Box 20, Church Street Station
New York, NY 10277-1004
Attn: Gregory T. Russo, Secretary

However, registered stockholders wishing to transfer their stock should continue to do so through the following transfer agent and registrar:

Manufacturers Hanover Trust Company
450 West 33rd Street
New York, NY 10001

1991 ANNUAL REPORT ON FORM 10-K

This Annual Report of Merrill Lynch & Co., Inc. contains much of the financial information that will be included in the 1991 Annual Report on Form 10-K to be filed with the Securities and Exchange Commission. Merrill Lynch will furnish a copy of its 1991 Annual Report on Form 10-K (including financial statements and financial statement schedules but excluding other exhibits), without charge, to any person upon request addressed to Gregory T. Russo, Secretary, Merrill Lynch & Co., Inc., P.O. Box 20, Church Street Station, New York, NY 10277-1004.

EQUAL EMPLOYMENT OPPORTUNITY

Merrill Lynch is committed to Equal Employment Opportunity and to attracting and retaining the most qualified employees regardless of race, national origin, religion, gender, or disability. For more information, write to Margaret R. Ingate, Vice President of Merrill Lynch Corporate Staff, Human Resources Development, Merrill Lynch & Co., Inc., World Financial Center, South Tower, New York, NY 10080-6111.

CHARITABLE CONTRIBUTIONS

A summary of the Corporation's charitable contributions is available upon written request to the Secretary.

ANNUAL MEETING

The 1992 Annual Meeting of Merrill Lynch & Co., Inc. stockholders will take place at the Merrill Lynch Conference and Training Center, 800 Scudders Mill Road, Plainsboro, New Jersey. The meeting is scheduled for Thursday, April 30, 1992, beginning at 10:30 a.m. (local time).

Merrill Lynch expresses its gratitude to M.K. Park, Manager, International Finance Department, Korea Development Bank; Richard J. Kogan, President & Chief Operating Officer, Harold R. Hiser, Jr., Executive Vice President–Finance, and Jack L. Wyszomierski, Vice President & Treasurer, Schering-Plough Corp.; Andrew Dietz, President, Spectra Gases, Inc.

Our appreciation also to Thomas Applegate, Bruce Barth, William S. Broeksmit, Francis Chan, Thomas Cucharo, E.S.P. Das, Thomas W. Davis, Jefferson W. Hughes, Jr., John F. Lyness, James A. McCarthy, Geraldine F. McManus, Ann O. Mills, Michael L. Quinn, William M. Salmons, Howard A. Shallcross, Robert M. Simonson, Lisa Strange, Michael Sullivan, Johnson Van, Conrad Volstad, John C. Wisniewski, Zenobia Wong, Christopher Young, Arshad R. Zakaria.

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